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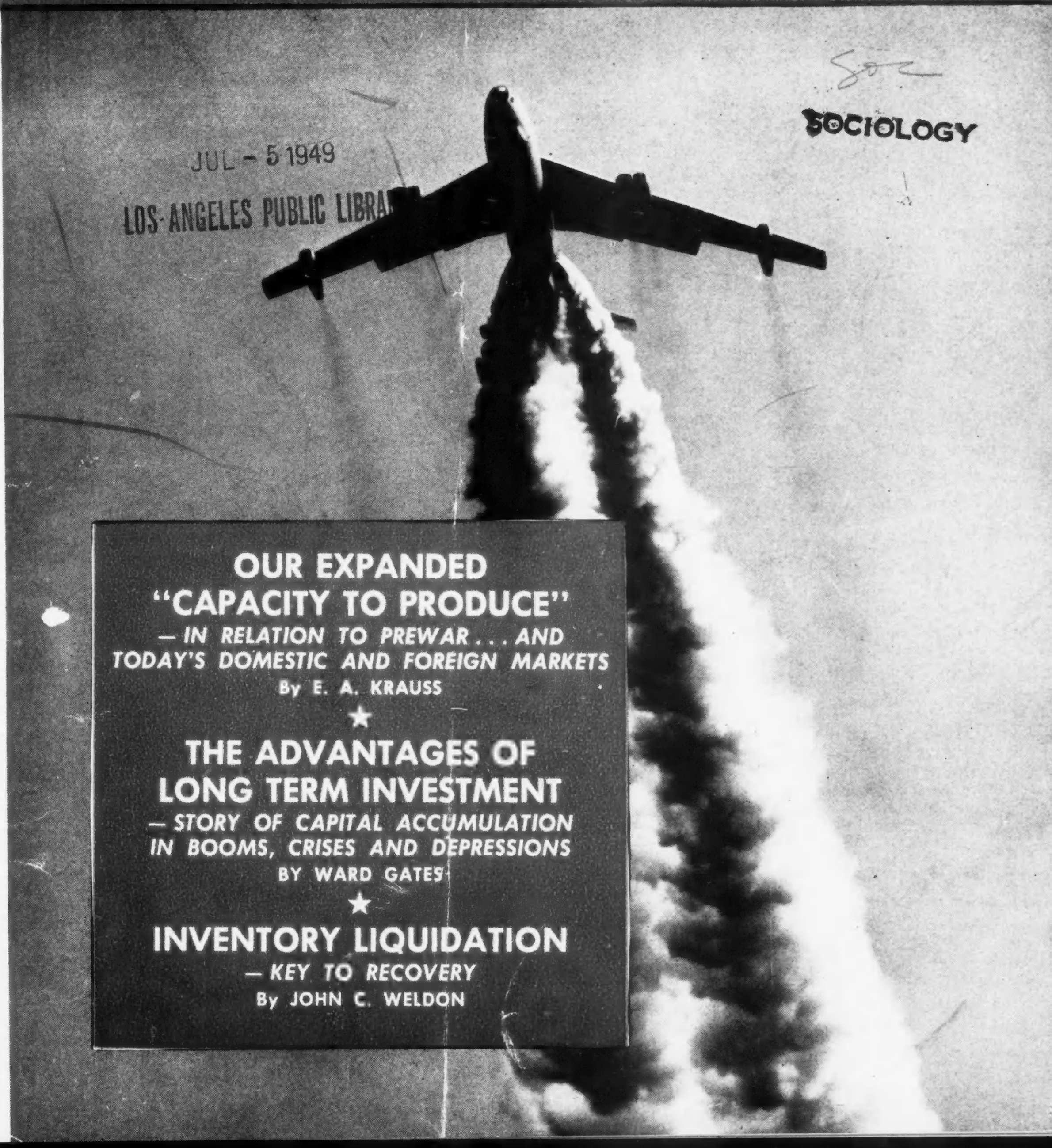

OUR EXPANDED "CAPACITY TO PRODUCE"

— IN RELATION TO PREWAR . . . AND TODAY'S DOMESTIC AND FOREIGN MARKETS

By E. A. KRAUSS

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THE ADVANTAGES OF LONG TERM INVESTMENT

— STORY OF CAPITAL ACCUMULATION IN BOOMS, CRISES AND DEPRESSIONS

BY WARD GATES

★

INVENTORY LIQUIDATION

— KEY TO RECOVERY

By JOHN C. WELDON

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THE MAGAZINE OF WALL STREET

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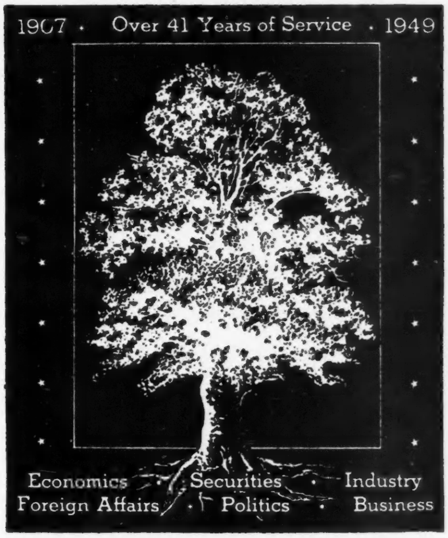


The Trend of Events

WOOING THE VOTERS . . . The dramatic efforts of the Democrats at the recent farm meeting in Des Moines to woo and win the farm vote points up the fact that these efforts to date, centering on the Brannan farm program, have not been very successful. It remains to be seen whether the Des Moines show has served to make the new scheme more convincing. The farmers have never been averse to special benefits but they are practical people and they question whether the enormous subsidies which the Brannan plan implies may not defeat their own purpose. Moreover, they like freedom of initiative and question the plan's far-reaching controls. Above all, they are suspicious of any proposal which claims to raise the farmer's income and at the same time to keep down prices for consumers. To them, it sounds just a bit too clever and they suspect a flaw somewhere. The Democrats are aware of this suspicion, hence their redoubled efforts to "talk them into it." In doing so, Mr. Brannan himself did not hesitate to go as far as predicting an "economic collapse unless his plan is adopted. Evidently he wants to "scare them into it."

What's been going on is at this time perhaps more important politically than economically, we feel. In particular it must be viewed as a renewal of the Administration's policy of class appeal at the expense of the rest of the country, for purely political purposes. The Administration's fight for the Brannan plan in this respect is on a par with its fight for repeal of the Taft-Hartley Act. Both are appeals for votes with an eye on the congressional elections next year.

The idea of political appeal to the labor and farm groups was expressed in President Truman's acceptance speech before the Democratic National Convention nearly a year ago. It might be a good thing to repeat now what he said then, for the benefit of those with short memories. Said he: "Never in the world were the farmers of any republic as prosperous as the farmers of the United States. And if they don't do their duty to the Democratic party, they're the most ungrateful people in the world . . . And I'll say to labor just what I've said about the farmers — they are the most ungrateful people in the world if they don't support the Democratic party."

This makes the Des Moines farm session, the plugging of the Brannan plan as well as current pleas to labor appear in their proper light — in the light of plain efforts to repeat the 1948 victory at the polls. If it works, all we can do is pity the people who will have to pay the bill. In the end, we shall all be paying for it, farmers and labor included.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

STUDY IN CONTRASTS...Compared to the recent "manifesto" by the CIO leadership to the effect that labor's purchasing power must be maintained at all costs by forcing fourth round wage boosts, A.F.L.'s advice to its local unions in these days of economic uncertainty provides an excellent example of responsible leadership in trade

union movement. While one may disagree with some of the theories or contentions made by the A.F.L. generally, their latest advice is sound and the spirit behind it constructive. This is far more than we have ever been able to say about C.I.O. pronunciamentos and policies.

Here is what national headquarters of A.F.L. suggests to their locals: "In the precarious business situation, wise union policies are of the utmost importance in negotiating with your employer. Get the facts on his financial condition and outlook from him if possible; supplement your information by writing A.F.L. headquarters. Perhaps your employer's prospects are excellent; but if his profit margin is being squeezed by price declines, your future will be more secure if you help him improve his competitive position. A wage increase may depend on a plan for union cooperation to prevent waste, save expense, cut costs, improve production. Such a plan can be developed through a Union-Management Production Committee. Now is the time to revive this prewar idea and make it effective for today's needs.

How different this sounds from the traditional C.I.O. attacks on management, from C.I.O.'s customary lack of regard for the position and problems of employers who after all provide the jobs for the workers. While the A.F.L. by no means gives up its interest in wage increases, if openly recognizes the fact that competition is the main pillar of free enterprise and that smaller companies, in order to compete, cannot always absorb the wage rates granted by larger units.

Doubtless responsible union leaders are aware and fearful of the possible effects of the current recession and realize that this is no time for boat-rocking. This is the implication of A.F.L.'s advice to its member unions. The same awareness of realities should guide the action of every union, in the very interest of the workers if not that of business, for what good are higher pay scales if there are no jobs?

THE ECA DEBATE . . . In the current effort of the Senate Appropriations Committee to make a substantial cut in the $4 billion asked for the European Recovery Program, there is a good deal more than meets the eye. Patronage, politics and even a slight dose of wishful isolationism have been going about in the guise of a genuine and compelling desire to balance the Federal budget.

Having failed in previous efforts to hold down appropriations for domestic undertakings of immediate interest to voters, there is now a frantic search of the foreign spending field for potential economies. The very haste and pressure to cut ECA outlays has not only served to bring into question the motives of those advocating it, but it has also created a most unhealthy atmosphere in which the ECA appropriation is now being considered. It is probably inevitable that no multi-billion dollar spending program can be kept wholly free from political importuning, but the less of it there is in this case, the better.

As matters stand, the House has appropriated $3.56 billion for the first 10½ months of the fiscal year, or about at the rate of the $4 billion asked. A majority in the Senate Appropriations Committee would like to provide the smaller amount for the full twelve-month period and save some $500,000.

ECA Administrator Hoffman has made it clear that if this is done, the recovery program will falter, and that if that happens, there will have to be a new head of the ECA. It remains to be seen whether Senate committeemen are prepared to accept responsibility for such an eventuality and what it could mean in the larger terms of European recovery and the cold war.

It is a program that cannot be taken lightly, particularly in view of the dismal failure of the four-power conference at Paris which once more points up the seemingly irreconcilable gap between East and West. In view of this we can hardly afford to jeopardize the European Recovery Plan or undermine the will of the Western powers to stand united in the face of Russian intransigeance. Should, by cutting its funds, ECA actually falter as Mr. Hoffman predicts, not only the economic but the political consequences could be more than we would care to contemplate.

BYRNES AND THE WELFARE STATE . . . Former Secretary of State James F. Byrnes in the course of his speech the other day at the bicentennial celebration of Washington and Lee University uttered a solemn warning against the current drift towards statism in the United States. "If some of the new programs seriously proposed should be adopted," he said, "there is danger that the individual, whether farmer, worker, manufacturer, lawyer or doctor, soon will be an economic slave, pulling an oar in the galley of state."

The warning is timely all right, for it comes just as Congress is getting down to the real business of grappling with the President's program of paternalistic legislation. Moreover it brings home to the minds of many not aware of it just how far we have progressed towards a welfare state, the zooming costs of which already bear down heavily on every individual and enterprise.

Judging from the anguished cries of Administration regulars, Mr. Byrnes' warning hit home, though what effect it may have on the Administration's proposal for housing, socialized medicine and similar measures is problematical. It is well to remember that Mr. Byrnes, far from a reactionary, has always been considered a Southern liberal and a stalwart Democrat. Coming from him, therefore, this warning carries double weight.

TIMID START...Seven different reorganization plans recently submitted to Congress on the same day appear like a prompt and extensive use of the power conferred by the Reorganization Act just signed by the President, but the seven plans, together, actually add up to only a very minor start on putting the Federal Government on a more businesslike basis. It seems that of the reorganization plans growing out of the work of the Hoover Commission, the President has selected for his first moves the recommendations least apt to achieve any considerable economies in Government. Most involve merely the transfer of agencies from one department to another.

I See It!

BY ROBERT GUISE

"BIG FOUR" DEADLOCK

After 29 days of meetings at the Palais Rose in Paris, the Foreign Ministers' conference came to an end with such a minimum of agreement that it barely prevented the meeting from being another complete flop. No agreement was reached on a unified government for Germany, none on a unified government for Berlin, none on a German peace treaty. Only on the Austrian treaty question seemed some sort of a deal possible though the limited agreement reached in that matter was one in principle only and far from firm.

"STALLED IN THE SAME OLD RUT"

White in the Miami Herald

In short there was no meeting of the minds on any major point of conflict. Despite the new modus vivendi regarding Germany, there remains the acknowledged stalemate which splits both Germany and Europe and which can continue only at the risk of new dangers. This is the primary answer to the question where the conference leaves the relations between East and West. No fundamental shift has taken place but these minor changes which have been made were somewhat to Russia's advantage. Russia renewed her pledge not to reimpose the blockade of Berlin and in return received our promise to help facilitate trade between the western and eastern zones of Germany. But after all, by agreeing to "live" with the western powers peaceably in Berlin, the Soviets merely promise to do what they were previously committed to do. All of which may not be too important at this stage of the cold war. While the conference has achieved little or nothing, at least it served to bring into new focus the world positions of the East and West.

The cold war continues despite Russia's apparent willingness to abandon her brutally aggressive tactics for the more normal processes of diplomacy and trade development. There has been a good deal of conjecture what the Soviets really wanted at Paris. A widespread impression was that they were out for a deal permitting them and their economically hard-pressed satellites greater access to the industrial products of Western Europe. If this was their aim, they have largely failed, for no such regular trade agreement materialized although they probably could have had one, had they been willing to meet the western powers half-way. But Soviet aims probably went beyond mere trade. They also wanted a breathing spell, politically. They had been making no headway in Germany, and they had run into serious satellite trouble. The latter were hurt by the disruption of East-West trade; moreover they were worried about recent Russian demands for a re-united Germany.

Thus Russia's immediate problem seemed not to seek new gains in Europe but to consolidate what she already has. Mr. Vishinsky placated the satellites in Paris by tentatively opening the door for resumption of East-West trade, and he played down his demand for a unified Germany. Perhaps in all of this, the Soviets also feel that time is on their side. Their propaganda has made much of recent symptoms of economic recession in the West and their strategy may be to wait in the hope of a serious depression.

It is obvious that the Soviets are determined to continue the cold war in an effort to gain by diplomacy and propaganda what they have been unable to win by force. Though on the surface at least, this had led to an easing of East-West tension, we must maintain our watchful attitude and hold firmly to our course. We must be doubly cautious because the Soviets seem anything but obliging in the Far East. Vishinsky's attempt to place the Japanese peace treaty on the Paris agenda — where it did not belong — was highly significant. So was his suggestion that only the nations that had signed the surrender terms with Japan should participate in the Japanese treaty discussions. This would eliminate France, giving Russia and the Chinese Communist Government an equal voice with the United States and Britain, and it is easy to see what that would mean. Vishinsky's proposal, as we know, was turned down at Paris, but it is not surprising to learn that while Mr. Acheson went to Paris concerned about Germany, he came back disturbed about China.

Joseph Stalin once (*Please turn to page* 356)

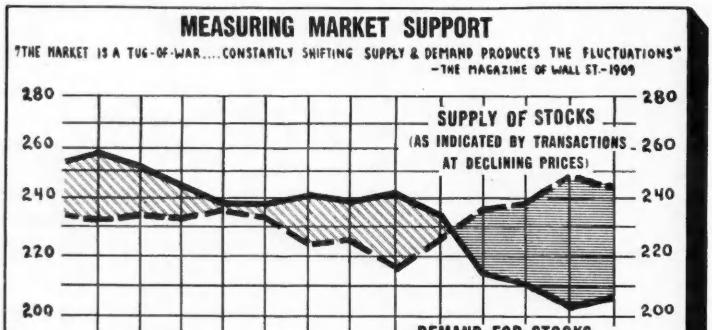
Security Prices—and the Business Outlook

The current technical rally does not change the picture. We believe that regardless of more immediate market action, further downside tests are ahead under the impact of the deflationary trend for business and earnings. In view of this, a conservative policy, with invested positions of about 50% in typical accounts, remains justified in our opinion.

By A. T. MILLER

After recording a new postwar low as of June 13, average stock prices have rallied moderately and slowly up to this writing. There is every reason to regard it as a mere technical rally, relatively insignificant when measured in terms of our inclusive weekly indexes. It reflects no important change in the supply-demand balance within the market, as shown by the chart on this page. And it remains necessary to allow for further downside tests, in view of the continuing decline in business activity and total corporate earnings, whether or not there is a little more rally in the meantime.

It is not particularly surprising that the breaking of the 1947 lows in the averages did not of itself precipitate a fresh wave of liquidation and a resulting nose-dive in prices. We had not necessarily anticipated that when we recommend the increasing of reserve funds in this discussion two weeks ago. With the margin position what it is, there can be no important amount of forced liquidation in this market; and "bear-raiding" is out under SEC regulation since short sales cannot be made at consecutively lower prices. It is largely an investment market in the sense that much less selling and buying than formerly are done on the basis of "technical signals."



Reasons for Caution

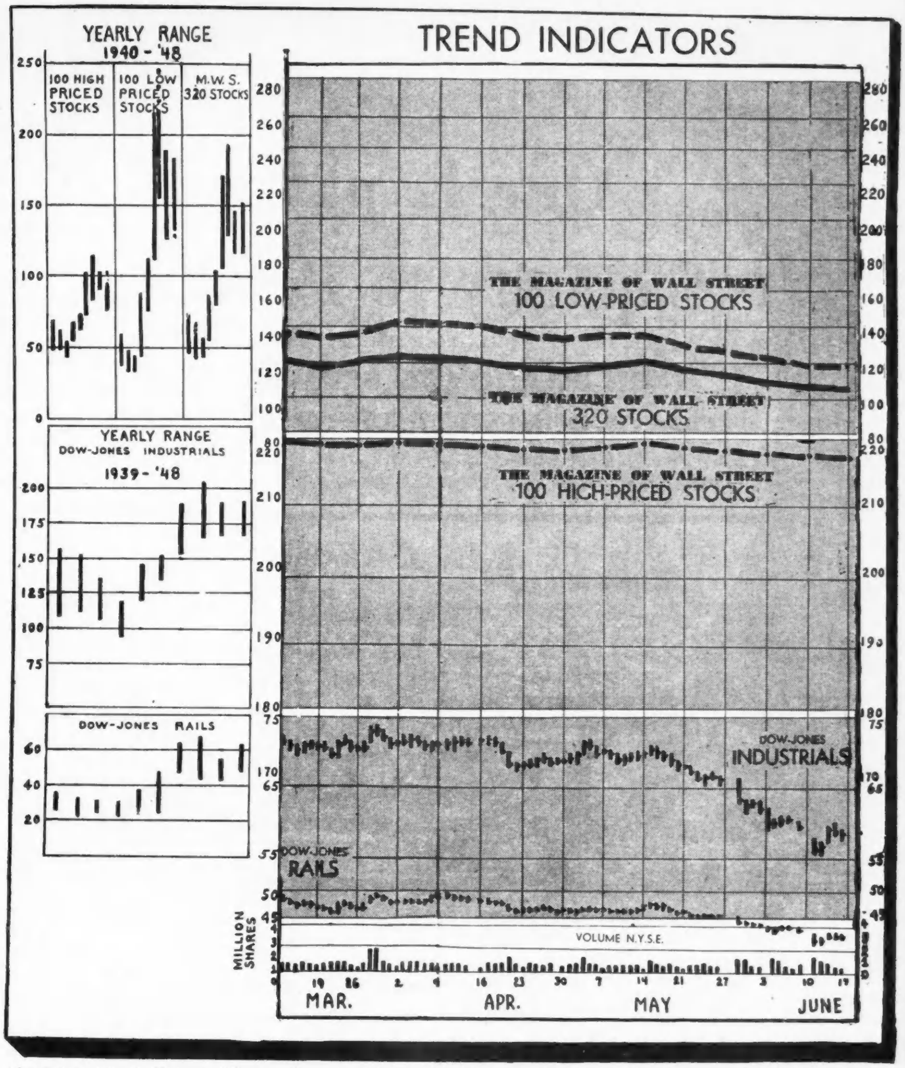
On the other hand it has been demonstrated that, regardless of the long period during which the business recession had been anticipated as a generality, an appreciable percentage of investors will sell stocks as the environment of continuing deflation wears down their nerves, and especially as items of adverse corporate news affect the individual stocks which they hold. This selling does not have to be in large volume to cause a considerable further erosion of stock prices, especially in the case of speculative issues and even the better-grade issues in cyclical industries, since investment bids are mostly under the market on a scale down.

The spring period has passed without any seasonal rebound in total business activity—in fact, it brought further deterioration. When the figures are released, June production and trade no doubt will be seen to have been under May. A further slide in July seems highly probable, and it could be sharp in the event of a coal strike or strikes in any major lines. In short, there is nothing in the economic outlook which seems capable of putting stock prices up over the near term or the medium term; and there is no foreseeable stimulation in Government moves or in the field of foreign affairs.

This would seem to leave the question of whether the present minor rally can develop into something moderately better, perhaps running into a portion of July, dependent on a temporary psychological reversion from the recent rather acute jitters, plus the precedent of some degree of rise at some time within the July-August period in past years. This is a tenuous basis on which to attempt to predicate sensible investment policy. There has been no "selling climax" in this market; and, the trend

of business being what it is, these periods in which the market pauses after a phase of decline and tries to take a more cheerful view of things cannot last long. Thus, it is hard to see either a technical base or a psychological base for much more rally than has now been seen, amounting to less than 4% in the daily industrial average up to this writing.

If that is so, the case for any further rise must hinge mostly on the fact, which brokers love to harp on, that July - August highs have been above May-June lows in each of the last 52 years. The record is not without interest, but it may be pertinent to note that, if the June 13 closing low of 161.60 for the Dow industrials turns out to be the May-June low, as is readily possible, the precedent of "seasonal summer rise" could be maintained merely by the average remaining any distance above the June 13 low through July 1. There is no element of prediction in this observation. We cite it merely to emphasize that "the traditional summer rise" is a tricky thing, and not something either easily or safely applicable to investment policy. If it should take the form of any extension of the rally of this last fortnight, our general view is that it probably would be of a scope disappointing to the optimists, that it would be more likely to top out before we have gone very far into July than in August, and that it would present a purely fortuitous opportunity to pare down or weed out your more speculative stockholdings if you have not already done so.



Conclusive Test Still To Come

This has been an unusual economic readjustment in that, up to the present, there has been enough activity in the durable goods industries, headed by automobiles, building and steel, to offset in substantial degree the deflation in consumer-goods lines which has been going on for a year or more and is well advanced. That is why the over-all decline in production through May was only about 10%. There may be small rebounds in some of the light industries within the medium-term, but the shrinkage in heavy industry is likely to quicken. Hence, we do not see much chance for a completion of the general adjustment before next year. That implies that the worst, as regards earnings reports and dividend declarations, is still ahead. If the market either holds relatively well under those anticipated conditions or declines materially, it will be time to consider purchases for the primary objective of cyclical appreciation. It is premature now.

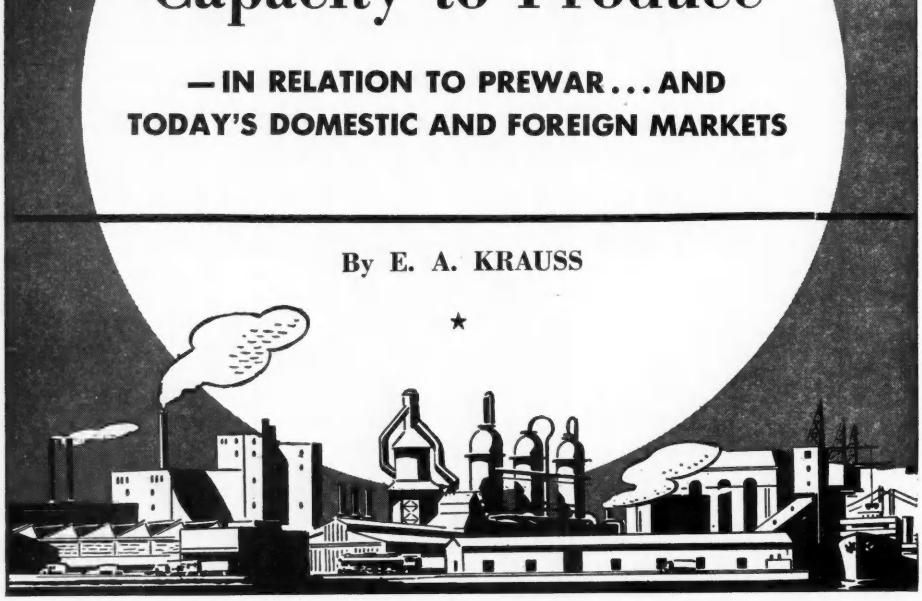
Technicians of late have been prone to attach significance to the fact that on appearance of reactionary tendencies last week, turnover dwindled and the market narrowed sharply. This, they argue, is not only indicative of investor apathy to lower prices but might also imply that liquidation of large holders may have been substantially completed. There is also some inclination to feel that refusal of the market to stay down in the face of adverse developments including penetration of an established resistance level must necessarily mean that the worst has been discounted. We are disinclined to share these views.

It should be noted that the preponderant majority of good-grade stocks in relatively stable industries—of which drugs, dairy products, utilities, grocery chains, tobacco products and variety chains are typical, among others—have not yet come even close to breaking their 1947-48 lows; and that many of them are also above their lows of last February. They could be pulled down moderately, given a deeper decline in the general list; but holders of stable-industry stocks face a minimum of uncertainty. The 50% invested positions that we recommend maintaining should be as largely as possible in such issues.—Mon., June 27.

Our Expanded Capacity to Produce

— IN RELATION TO PREWAR . . . AND TODAY'S DOMESTIC AND FOREIGN MARKETS

By E. A. KRAUSS



American industry since the war's end has invested some $75 billion in new plant and equipment, leading to unprecedented expansion of productive capacity on top of the significant broadening of our industrial base during the war, a goodly part of which was retained through conversion to peacetime purposes. Thus industry today is bigger and stronger than ever, its capacity to produce — and produce efficiently — enormously increased. Many wonder whether in response to huge and abnormal demand for its goods during the war and since, it has not developed excessive capacity which may be particularly felt when demand both at home and abroad has returned to normal, when European nations, following recovery, are again becoming aggressive exporters.

The time is not far off. At home, we have virtually returned to a replacement basis, with pent-up demands largely satisfied. Abroad, recovery of production has made great strides and there are growing signs of rising world competition which is bound to narrow our potentials in world commerce. All of which raises the question just how great an excess capacity we may have in relation to changing potentials for the absorption of its output.

The story of postwar industrial expansion, in terms of expansion programs by major industries and individual companies, is well known since it has been well publicized. Still its overall significance has always been somewhat difficult to evaluate. In this respect, the new Census of Manufactures undertaken by the Bureau of Census reveals interesting and important data. Although conducted biennially since 1921, the Census was not taken in the years 1941, 1943 and 1945, because of the war. Since this gap in the series was the longest in recent history, the 1947 Census just summarized by the Bureau is of exceptional significance. It serves to point up the vast changes which have taken place in the pattern of American industry during the war and reconversion, the great increases in manufacturing output, plant facilities and employment, the appearance of new plants, new manufactures and new industrial areas.

The 1947 Census of Manufactures does of course not tell the whole story of postwar expansion since a good deal of it was undertaken last year, and some even this year, none of which finds expression in 1947 figures. However, this does not detract from the latter's usefulness and significance. Thus we find, that in the aggregate in 1947, 38% more factories employing 52% more workers turned out a dollar volume of goods three times as high as in 1939. This volume is measured in terms of "value added by manufacture," that is the amount by which the value of shipments exceeds the costs of materials and supplies. It is an excellent measure of productive capacity though subject to qualifications.

The number of factories covered in the 1947 Census approximated 241,000 whereas in 1939 there were only 174,000. The average number of production workers has risen to 11.9 million from 7.8 million; and "value added by manufacture," indicative of output, was $74.3 billion as against $24.5 billion in 1939.

Geographical Changes

In 1947, the ten most important states from the standpoint of industrial production were ranked as follows: New York, Pennsylvania, Illinois, Ohio, Michigan, New Jersey, California, Massachusetts, Indiana and Wisconsin. This ranking is the same as shown for 1939 except that over the period, California advanced ahead of Massachusetts, rising from 8th to 7th among the states, and Wisconsin displaced Connecticut from 10th place. California led these states in rate of growth, with a 256% increase in "value added by manufacture" and a 96% increase in employment. Wisconsin was second with gains of 232% and 72%,

respectively. The smallest percentage increases in either respect were shown by the New England and Middle Atlantic states generally.

Even more interesting is the showing of major industry groups. Top position in point of gain of productive capacity is held by the Electrical Machinery group; here the number of establishments increased 100%, employment of production workers 156% and "valued added by manufacture" fully 315%. It shows not only where greatest capacity expansion has occurred but where keenest competition must be expected unless the new capacity can be absorbed. The machinery industry as a whole (except electrical) holds second place with an indicated gain of productive capacity of 285% and an increase in the number of establishments of 102%. What with postwar emphasis on plant expansion and modernization, all calling for new industrial equipment, and heavy export demand for American machinery, these sharp increases are not particularly surprising but they also explain the sharp slump in machinery output now that the expansion phase is largely completed. The implication of overcapacity, relative to more normal demand, is fairly clear in both these instances. The same can probably be said for fabricated metal products; though the number of establishments increased only 76%, indicated output rose 250%.

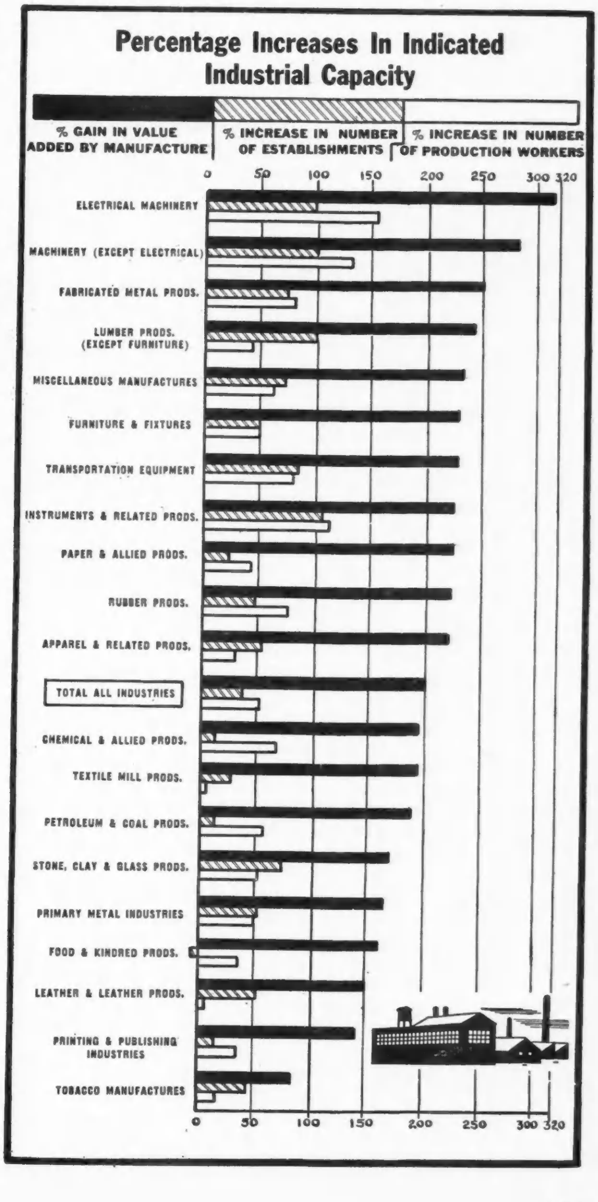
Other Large Increases in Capacity

Value added by manufacture in the Transportation Equipment industries increased about 228%, and the number of production workers employed 81%. Substantially greater than the average increases in both measures were also reported for Instruments and related products (225% and 114%), and for Rubber products (221% and 78%). In the Lumber, Furniture and Paper industries, the increase in "value added" averaged about 230%, substantially greater than the average for all industries though the roughly 45% increase in employment was somewhat lower than the national average of 52%.

Even more striking was the 225% increase in "value added" in the Apparel industries as compared with a gain in employment of only about 30%. The explanation for this probably lies not only in the tremendous business volume of these industries in the early postwar but also in the high profit margins which prevailed during that period. By way of contrast, comparatively small increases in both "value added" and employment were reported in Foods, Tobacco and Leather products, as shown in the accompanying chart. The food industry's gain in "value added" was only 160% above 1939 but the number of food factories declined by 8%, the only decline in the entire list. This would mean that the average gain in output for each food processing plant was nevertheless the biggest in the entire manufacturing industry.

Significant also is the reported increase of 195% in "value added" by Textile mills on an increase of employment of only 6% though the number of establishments rose 28%; this highlights the gain in productive efficiency in the industry through modernization and new equipment but it may also bear some relationship to the high profit margins prevailing in this field in 1947. Chemicals and allied products showed a 196% gain in "value added," on a 69% increase in employment, while the same measures for Petroleum and Coal products were 190% and 58%, respectively. But in both groups, the number of establishments increased only 14%. In these as in other instances where the gain in the number of establishments has been relatively small compared with the increase in "value added," it seems safe to conclude that expansion has been achieved impressively by raising productive capacity of existing plants. Outstanding evidence in this respect points to the Food, Chemical, Petroleum, Paper and Textile industries though since the figures reported are aggregates, one must allow for perhaps considerable variations among individual companies.

In looking at the summary picture revealed by the Census of Manufactures, as reproduced in the accompanying tabulation and chart, one finds seemingly most direct and concrete evidence of expansion in the relative increase of establishments in the various industry groups. Leading in this respect, as already pointed out, was the machinery industry, followed by Instruments and related products (reflecting among other things the greatly expanded stature of the aircraft industry), and by Lumber and products



where establishments have been doubled as the result of the building boom. A relatively large increase in manufacturing establishments has also occurred in Fabricated Metal Products, Transportation Equipment and Stone, Clay and Glass Products. Smallest increases, by less than 25%, on the other hand were reported for the Paper, Chemical, Oil, Coal, Printing and Publishing industries.

Qualifications of "Value Added"

Variations in increase of establishments of course are no infallible guides to the relative gain in productive capacity since plants can be large or small, efficient or inefficient. The gain in "value added," therefore, is a better measure since it relates more directly to output. But here, too, qualifications are in order, for "value added" reflects not only physical production but prices as well and 1947 prices, as we know, were well inflated and profit margins often abnormal. Thus when "value added" in 1947 shows a 200% increase over 1939, this cannot imply a similar rise in productive capacity; far from it. But the figures shown do reveal where the greatest growth and expansion has occurred, where potential overcapacity is indicated.

Actually, when postwar expansion is complete, it has been estimated that productive capacity of American manufacturing industry will be some 50% greater than in 1939. According to findings of a McGraw-Hill survey, almost one-third of manufacturing companies will have doubled or more than doubled their prewar facilities. About 17% will have from 50% to 99% greater capacity. Another 29% will have added from 5% to 49% to their 1939 capacity.

These wide variations are reflected by the Census figures. Thus we find for Fabricated Metal products a 250% gain in "value added" and a 76% increase in the number of establishments, whereas their suppliers, the Primary Metal industries, show relative increases of only 165% and 52% respectively. In the latter group, the steel companies are by far the largest and most important, and historically, output of the metal working industries has closely paralleled steel production. The differences in new capacity constitute a fundamental shift in the structure of American industry reflecting the growth of new metals such as aluminum, magnesium and various alloys; but as previously hinted, it could also imply overcapacity in the fabricated metal industries. For whereas metal working industries expect to have a productive plant almost two-thirds again as large as in 1939, the metal producing companies will have only 40% to 50% more capacity.

Can Increased Output Be Absorbed?

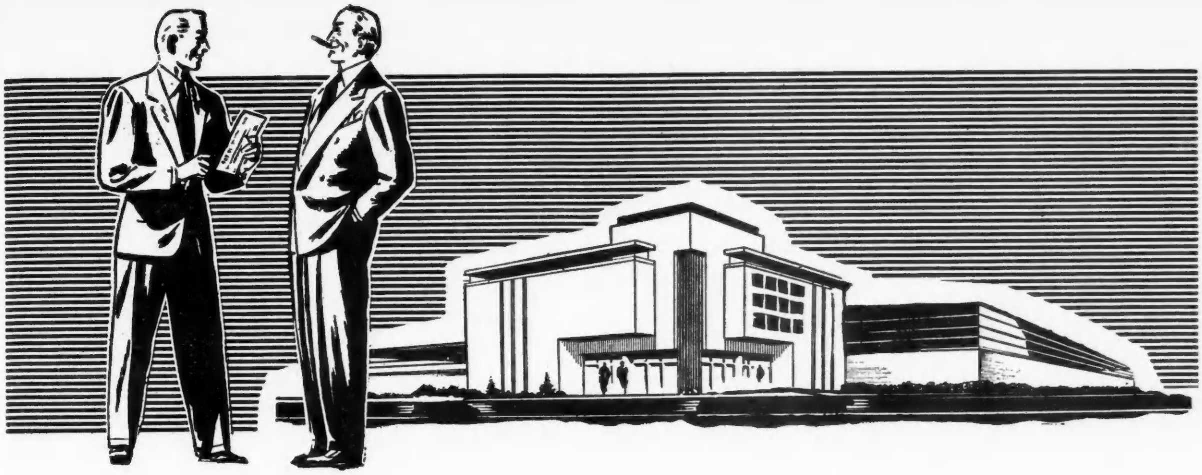
Assuming a roughly 50% increase in manufacturing capacity over prewar, the biggest question naturally is: Can this increased output be absorbed? Doubtless postwar expansion has not been planned haphazardly but with a keen eye on potential markets and profits. Where were the markets to come from?

Initially, of course, market potentials were enormous, both at home and abroad. Domestically, pent-up demand was such that it took industry over three years to satisfy it. And foreign demand for American goods of virtually every description was only limited by ability to buy, or to borrow or beg the dollars needed to buy. However, (*Continued on page* 354)

Census of Manufactures Statistics by Major Industry Group: United States, 1947 and 1939

Major industry group	1947: Number of establishments (units)	1947: All employees: Number (average for the year) (thousands)	1947: All employees: Salaries and wages, total (millions)	1947: Production and related workers: Number (average for the year) (thousands)	1947: Production and related workers: Man-hours total (millions)	1947: Production and related workers: Wages, total (millions)	1947: Value added by manufacture† (millions)	1939: Number of establishments (units)	1939: Number of production & related workers (average for the year) (thousands)	1939: Value added by manufacture† (millions)
ALL INDUSTRIES, TOTAL	240,801	14,292	$39,681	11,918	24,354	$30,248	74,364	173,802	7,808	$24,487
Food and kindred products	39,904	1,440	3,799	1,098	2,368	2,583	9,022	43,667	802	3,485
Tobacco manufactures	1,087	112	206	104	199	176	643	765	88	350
Textile mill products	8,110	1,233	2,883	1,147	2,307	2,449	5,334	6,388	1,081	1,818
Apparel and related products	30,905	1,081	2,530	974	1,819	2,020	5,423	20,275	753	1,386
Lumber and products, except furniture	26,324	639	1,347	599	1,254	1,188	2,513	13,208	423	731
Furniture and fixtures	7,687	322	824	283	594	654	1,379	5,178	189	418
Paper and allied products	4,103	450	1,281	389	851	1,011	2,875	3,328	270	888
Printing and publishing industries	28,987	715	2,277	438	904	1,318	4,268	24,878	324	1,765
Chemicals and allied products	10,073	632	1,883	467	977	1,226	5,360	8,839	276	1,819
Petroleum and coal products	1,387	212	740	170	356	559	2,017	1,227	108	697
Rubber products	875	259	783	215	425	615	1,303	595	121	406
Leather and leather products	5,307	384	874	349	677	725	1,485	3,505	327	583
Stone, clay, and glass products	11,650	462	1,211	406	840	995	2,307	6,678	267	856
Primary metal industries	5,363	1,157	3,601	1,010	2,054	2,981	5,775	3,512	672	2,169
Fabricated metal products	16,729	971	2,828	822	1,692	2,184	4,918	9,532	451	1,401
Machinery (except electrical)	17,907	1,546	4,807	1,244	2,585	3,595	7,817	8,860	536	2,037
Electrical machinery	3,973	801	2,274	639	1,295	1,647	3,894	1,979	248	942
Transportation equipment	3,706	1,180	3,713	985	1,975	2,934	5,860	2,012	545	1,773
Instruments and related products	2,599	232	665	182	368	468	1,080	1,292	85	333
Miscellaneous manufactures	14,125	464	1,205	397	814	920	2,090	8,084	242	630

†Value added by manufacture is computed by subtracting cost of materials and supplies from value of shipments.
Source: Bureau of the Census



The Advantages of Long Term Investment

— THE STORY OF CAPITAL ACCUMULATION IN BOOMS, CRISES AND DEPRESSIONS

By WARD GATES

Undue emphasis on the risks of stock speculation has led many timid investors to avoid acquisition of equity securities in the belief that such a step would be like entrusting one's savings to the vagaries of a roller coaster. This attitude ignores the distinction between speculation and investment, particularly informed investment, and it equally disregards the often sensational returns that accrue from long term investment in carefully selected enterprises.

Admittedly the welter of daily news about stock market fluctuations, price trends, conflicting business forecasts and discussions of booms and busts form a poor psychological background for conservative decisions on stock investments. They tend to prejudice the cautious investor, anxious to conserve his capital and obtain stable income returns, against the purchase of common stocks in which he can see nothing but uncertainties and disappointments, losses and interruption of income. His inclination is to place his funds into the relatively safe haven of fixed income securities. But in doing so, he can also miss the chance of a lifetime. Examination of the record shows not only that fixed income securities, too, can be vulnerable, but that inclusion of sound equities and their long term retention can be rewarded with great investment satisfaction, exceptional profits and relatively stable income return, regardless of the ups and down of daily and even cyclical price fluctuations.

This emphasizes the value of expert advice in making primary selections for long term holding because prospects for income and well sustained growth can be discerned best by trained talent. Such investment need by no means be undertaken in the nature of a "permanent investment," for there is always need for periodic inspection of holdings in order to keep abreast with changing fundamentals. But where basic factors remain favorable, long term retention is often preferable to switching under pressure of kaleidoscopic stock market conditions. The latter can be extremely risky, though at times also useful or necessary, but the former, assuming proper investment selection, has frequently been extremely rewarding quite apart from the peace of mind that goes with the conviction that one's funds are well placed.

Thus most amazing success has often come to investors insisting on long term programs on basic recognition that placement of funds in corporate stocks implies an entry into a business rather than into the stock market, and even today the choice indeed is wide and tempting. There are many soundly financed and strongly entrenched companies with records that speak for themselves, where dynamic management, introduction of new or essential products and exploitation of naturally expanding markets has pulled the enterprise successfully through all transient hazards of panics, wars and depressions, enabling them to grow in line with our ever-growing economy. It is situations like this where average earnings have been consistently good, dividend payments exceptionally stable and a permanency of product appeal and growth prospects indicated, which have appeal for the long term investor even of highly conservative bend.

Varied Opportunities

Opportunities for selecting shares with outstanding potentials for ultimate price appreciation plus exceptional return arising from prolonged business growth are of course not confined to concerns with long established records and already imposing stature. There are others which may have displayed vigorous growth only in the last ten or fifteen years, arising from discovery or development of ideas that gave birth to entirely new industries. Looking ahead, it is undeniable that sales and earnings of some of these relatively young enterprises may well outdo the showing of older though equally sound concerns, and that with the passage of time, still other candidates may arise on the scene.

The arrival of plastics, television, improved plywoods, synthetic fibers, chemical wonders, electronics, and possibly atomic energy suggest an un-

Table I

Long Term Investment Record—Jewel Tea		
1920	Investor buys 100 shares of Jewel Tea at $5 per share—total cost	$500
1928	Receives rights to buy additional shares; sells rights for	$1,650
1929	Receives 75% stock dividend; total shares held	175
1940	Receives 100% stock dividend; total shares held	350
1948	Market value of shares held	$15,750
1948	Dividends received since original investment	$16,161
1948	Total value of original $500 investment	$33,061

limited horizon for progressive new firms. It should be realized, however, that practically all of the large concerns whose age or size awake suspicion of maturity, have been foremost in adopting and promoting new developments, even though unrelated to their regular activities. In other words, many firms with an established record for long term growth may extend it more slowly perhaps, but no less surely. This is really what should count most with conservative investors.

Current widespread uncertainties have so deflated the prices of even highest quality stocks that a rare opportunity for accumulation of growth equities is near at hand, if not already present. Investors of the special type under discussion need no particular assurance that bottom price level has been reached, in view of sub-normal quotations and above-average high yields now prevailing. Purchases of ultra-sound common stocks that can be tucked away in the box for long term retention, with confident expectation of satisfactory income and natural appreciation as time passes, now deserve consideration.

Fewer Hazards Today

In marked contrast to conditions in former uncertain periods when credit was shaky, mortgage foreclosures heavy, employment at a disturbing level, and inventory losses threatening to bankrupt many large enterprises, none of these adverse factors now present themselves. To the contrary, banks, many corporations, farmers, industrial workers and self-employed individuals enjoy a sound financial status. In the circumstances, to be apprehensive over the ability of carefully selected companies to carry on successfully, come what may, borders on the absurd. The past half century has seen industry emerge from many extremely trying times to a new growth period attended by higher living standards for the majority, and it can and will do it again.

Let's examine the facts concerning a few situations where investors may have adopted the policy of investing an initial sum in a promising corporation and sitting tight for a number of years, regardless of booms or busts and an ever changing level of stock exchange prices. Take Sears Roebuck, for example, the largest merchandising organization in the United States. Back in 1906 a single share of Sears Roebuck could have been purchased for $57. Today the price is practically the same but repeated stock splits have so increased the number of shares now held that their aggregate value even under current depressed market conditions is a surprising $1960. If allowance were made for cash dividends paid during the long period, the score would be increased by $1545 for a total value of $3505. Assuming an original purchase of 100 shares, the present value including accumulated dividends would be $350,500, a tidy fortune created on an investment of only $5700 43 years ago.

How Much Future Appreciation?

While presentation of these exceptional results in no manner implies that in less than another half century, 100 shares of Sears Roebuck bought at current prices are likely to grow similarly in value, it is safe to predict that their increment will be substantial, regardless of cyclical influences that may affect interim quotations. The main thing to remember is that the original investor cited did not sell his shares at the 1929 peak of 181 and with rare courage repurchase them at the 1932 low of 9⅞, though such a course would have compounded his profits, nor for that matter did he take advantage of numerous other opportunities to realize capital gains. On the other hand, the omission of dividends in 1922-23 or in 1932-33 did not make him liquidate his holdings. The soundness of this policy has been proven, for average annual cash dividends on his original investment have been exceptionally high. Just how fast Sears Roebuck may continue to grow is conjectural, but that this experienced organization is permanently molded into the merchandising pattern of our growing country seems indisputable. The groundwork for further growth has been laid by large scale use of retained earnings to expand and modernize the company's retail outlets, not alone in the United States but in Latin-America as well. Sears Roebuck has far from reached maturity.

In 1924, many investors probably assumed that 30 years of impressive growth by General Electric Company might result in a future slowdown. Annual volume of $300 million and corresponding resources looked pretty large in those days. But subsequent events proved that despite these gains, the company had merely reached an adult stature. An investor searching for growth stocks would have made a mistake, had he passed up this dynamic concern, for the golden age of electricity was on the verge of spectacular development. An investment of $4850 in 1924 would have bought 25 shares of General Electric stock which, if held to date would have swelled to 932

Table II

Long Term Results—Dividends Reinvested Through 1948

Amount Invested	No. of Shares	Date Invested	Name of Company	Total Shares Received	Current Value
$5,000	25 shares	1924	General Electric	932 shares	$ 32,620
5,000	336 "	1924	General Motors	3007 "	162,378
5,000	64 "	1924	Coca-Cola	1741 "	217,625
5,000	106 "	1924	Dow Chemical	8050 "	354,200

Table III

Year Bought	Stock Price	Name of Company	Shares 1949	Current Value	Accum. Dividends	Total Value
Growth of One Share of Stock to Date						
1915	$397	DuPont	14	$2520	$2130	$4650
1906	57	Sears Roebuck	56	1960	1545	3505
1901	100	Eastman Kodak	50	2000	2500	4500
1899	136	United Fruit	15	690	865	1555
1892	112	General Electric	16	560	730	1290
1912	105	Woolworth, F. W.	19	874	1150	2024

shares, had dividends been reinvested annually and allowing for stock distributions. At current quotations, these holdings would be worth more than $32,000. In the space of 24 years, accordingly, an investor would have had his original investment returned through dividends with about 500% profit to boot. Though annual income would have varied from year to year, in every period some dividends were paid. He has now become a partner in an enterprise with annual volume around $1.6 billion, net working capital of $350 million and total assets of $980 million, as a result of unbroken faith in his original investment. Progress has been slower than in some other situations he might have chosen, but far more satisfactory than he could ever have hoped for, and the growth potentials of his company are far from exhausted.

International Business Machine

How technical talent can win fortunes for stockholders in well managed enterprises is well shown by the experience of International Business Machines. Development of increasingly efficient business machines in an age when cost savings at the office level have become as important as in the factories has brought amazingly consistent prosperity to this concern. Through ceaseless research, exploitation of world markets and astute merchandising policies, IBM has grown apace and with no indication that its speed will slacken in the years to come. Though the company has paid cash dividends regularly since 1916, it has frequently supplemented them with stock dividends. By this method of capitalizing retained earnings that were profitably employed, an opportunity was afforded shareholders to gain increased income in line with the company's expanding growth. The compounding process accordingly has lifted dividend income to a point where annual distributions are now in excess of the cost of stock in 1921. Investment of $1000 in IBM shares in that year has grown to-date to a value of about $50,000 if all stock dividends had been held. This is a pretty good example of how fortunes can pile up through vigorous business growth, rather than by reliance on luck or skill in short term speculation.

Typical of our enterprise system has been the astounding growth of Jewel Tea Company since the end of World War I. This situation holds special interest in that efficient management rather than product novelty brought striking success in a highly competitive field. As long ago as the turn of the century, the company started direct sale of foods to the consumer by wagon, one of the oldest forms of merchandising in existence. As of 1948, Jewel Tea sold $153 million of merchandise to about 2 million customers, operating 1876 routes in specially designed trucks and 154 self-service stores. In 1920, when the company shares were selling at $5, an investor purchasing 100 shares for $500 would hardly have dreamed that 28 years later his investemnt would be worth $15,700, quite aside from receipts of dividends aggregating $16,161 during the term. Yet the facts speak for themselves. Here again we have an instance where uninterrupted faith in a chosen enterprise paid off handsomely. The strain on confidence must have been rather strong until 1928, despite fair earnings, because prior to that date, common stockholders received no dividends, and arrears on the preferred were not fully cleared until 1927. Thereafter the company got into its stride, with rapidly increasing volume and earnings that established an unbroken dividend record to date. All of which shows how transcendent the element of good management can be in appraising the growth potentials of any concern.

Eastman Kodak

Considering that a single share of Eastman Kodak could have been purchased for $100 in 1901, it seems almost incredible that if the investment had been held for about half a century, its value would have swelled to nearly $2000, irrespective of cash dividends amounting to $2500. The old yardstick that money should double itself in about a generation sounds outdated in this instance. The experience of Eastman Kodak shareholders strikingly illustrates the benefits of a well chosen industrial investment that could be permanently retained under all conditions, permitting the holder to live free from worry and with valid hopes that his income and principal would substantially increase over the years. Actual dividend income for the period was $2500, increasing the total value to $4500.

The situations we have cited thus far are by no means isolated ones. Look at the experience of General Motors shareholders in the relatively short span of 25 years. An (*Please turn to page* 356)

Table IV

Amount Invested	Date Invested	Name of Company	Approx. Current Value
Investment Results From $1000			
$,1000	1921	International Bus. Machine	$50,000
1,000	1924	Case, J. I.	10,000
1,000	1925	DuPont	10,000
1,000	1929	Abbott Laboratories	9,000
1,000	1930	Monsanto Chemical	11,000
1,000	1931	Celanese Corp.	25,000

Inventory . . . .
. . . Liquidation
—A KEY TO RECOVERY

By JOHN D. C. WELDON

The role which the cutting down of inventories is playing in intensifying current recessive trends in business was until recently perhaps not fully recognized by many but there is now growing conviction that it is rapidly becoming a key factor in the business outlook, one that will largely determine both the intensity and duration of the business setback.

With the appearance of consumer resistance and price declines, the urge to shorten stocks on hand has become an overriding consideration. Distributors are trying to carry as little stock as possible, counting on manufacturers for prompt deliveries. These in turn attempt to avoid a piling up of finished goods and to get along with a minimum of purchased materials. New orders thus are reduced all along the line, and as the drop snowballs into basic industries, general activity suffers. It is this process which furnishes the chief explanation for the slump in business.

As against this, disinclination of consumers to spend is, for the time being at least, regarded as a relatively less potent element; the drop in consumer outlays has been far less a factor in the recession than the decline in business spending. Consumption on the whole has been fairly well maintained and the same is true, so far, of plant and equipment expenditures by business though the momentum has slackened in both. But a really radical change has occurred on the side of inventory accumulation. Its postwar uptrend has definitely come to an end and a reverse trend is well under way. We have explained its cumulative impact on business, which in actual application is frequently worsened by the so-called acceleration effect, meaning that relatively small changes in final demand for finished goods will give rise to much greater contraction of demand for the raw materials and equipment used in their production. The prospect of lower prices is apt to compound the process and has led to virtual evaporation of new orders in many lines, adding materially to prevailing business gloom.

Thus it may happen that a retailer, experiencing a mere 5% drop in demand for certain goods but having ample inventories, decides to cut his orders from the manufacturer not just by 5% but by 15% to 20%. Confronted with such a drop in sales and finding his stock in raw materials top-heavy, the manufacturer slashes his orders for them not by 20% but by 50% or 75%. If he is overloaded, he may stop ordering altogether. Thus a relatively slight decline in retail demand for a finished product may snowball into a sizable slump in demand for raw materials, and something of the sort has been exactly going on.

At one point, of course, the process must stop and reverse itself, and that is when inventories have been pared to a point where they no longer support current requirements and when reordering will be necessary. That will be a turning point though naturally it will not occur at the same time in all businesses or industries. But a recession created in this manner, though leading to industrial curtailment, reduced employment and loss of purchasing power, ultimately will supply its own brake. In some soft goods lines where the decline has been steep and protracted, this point seems near at hand and is likely to provide a stabilizing influence during the second half of this year though it won't be strong enough to bring about a reversal of the cyclical downtrend.

Aggressive Inventory Liquidation

Generally speaking, business is far from finished with its inventory slashing; in most lines it continues apace with the usual depressing effects. This is one of the reasons why steep price cuts in raw materials, as in non-ferrous metals, failed to have the expected stimulative effect on demand. Too many users are still saddled with high priced metal inventories which they must dispose of first before they can take advantage of the lower prices. It explains also why lower

raw materials prices have been slow in percolating down to retail levels in many instances.

Moderate Ratios to Sales

For the time being, reliance on stocks on hand is extremely widespread. Twenty weeks of uninterrupted decline in business loans, totalling some $2 billion since the year-end, reflect the prevalent insistence on inventory cuts. During the postwar period of accumulation which lifted manufacturers' inventories from $18.7 billion early in 1946 to a peak of $32 billion last January, and total business inventories from $26.9 billion to $55.3 billion last November, observers with few exceptions saw little danger in their rapid increase to dollar figures two or three times those of prewar, since they were by no means out of line with the tremendous expansion in turnover and sharply higher costs and prices. Most of them still hold to this view which is fundamentally sound. Throughout this period, and even today, the ratio of inventories to sales has consistently held below prewar. Even as late as the first quarter of 1949, the ratio was 1.86 compared with 2.11 in 1939, 2.15 in 1937 and 2.12 in 1929. In other words, inventories were only 1.86 times average sales during the first quarter, compared to more than twice the amount of sales in the respective prewar years.

To judge by Department of Commerce figures, necessarily belated in appearance, the decline in inventories from recent peaks has been slow. From their January peak of $32 billion, manufacturers' stocks were reduced to $31.7 billion in March and to $31.4 billion in April, latest month available. This compares with an increase of $3.8 billion in 1948 alone, whereas general business inventories last year advanced by some $6 billion. Total business inventories, to April, have declined $1.2 billion from their November peak. The process may have been considerably speeded up since April, yet even later figures may not show too close relationship to actual developments.

The emergence of "hidden inventories" is probably a striking development of the present downturn, that is, a rapid dispersal of "grey market" inventories which in the nature of things usually don't show up in known or reported stocks on hand. During the period of rising prices and shortages, there has been a great deal of such accumulation by consumers as well as speculators; now with the price trend downward, dishoarding of such stocks must be taken for granted. The long buying "holiday" in business, and the fact that it appeared in lines such as copper where it was quite unexpected, suggests that grey market inventories were far larger than suspected. By the same token, its depressive impact as outlined before was bound to be correspondingly more serious than official statistics on inventories would allow for.

If so, this would seem to weaken the often voiced assumption that the business downturn is not likely to take the course of a sharp recession because the inventory situation of most businesses is on the whole healthy and is not in excessive ratio to current sales. The latter is true enough, as we have shown, but it might be fallacious to place too much reliance upon it. Once prices turn down, the urge to cut down stocks is universal and pressing, regardless of ratios to sales, since there is little incentive, and possible danger, in holding on to goods or raw materials. "Reasonable inventories" become a relative term particularly since everything is now in ample supply and fears of shortages a thing of the past. Usually, in an era of falling prices, almost any inventory is regarded as too much.

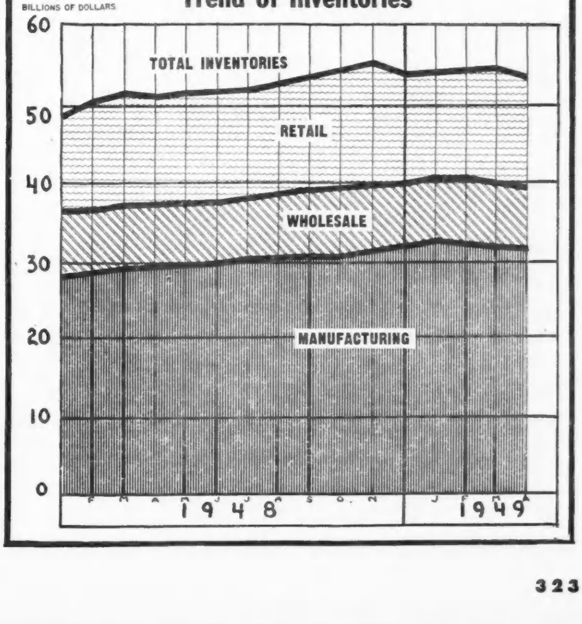
Hence existing low inventory-to-sales ratios are no guarantee that they will not go lower, that the paring of stocks will not be pressed further. The greater probability is that the curtailment process will continue until it creates its own braking power after having had an exagger- (*Please turn to page 353*)

Recent Changes in the Value of Inventories

Inventories	April	March	Feb.	Jan.	Dec.	Nov.
	1949				1948	
	billions					
Business, Total	$53.6	$54.8	$54.6	$54.1	$54.0	$55.4*
Durable Goods	23.8	24.1	23.8	23.5	22.9	22.9
Non-durable Goods	29.8	30.7	30.7	30.7	31.1	32.4
Manufacturing, Total	31.4	31.8	32.0	32.1*	31.8	31.2
Durable Goods, Total	15.2	15.3	15.3	15.2	14.8	14.6
Purchased Materials	4.6	4.7	4.8	4.9	4.9	4.8
Goods-in-process	5.9	5.9	6.0	5.9	5.7	5.7
Finished Goods	4.7	4.6	4.5	4.4	4.2	4.1
Non-durable Goods	16.2	16.5	16.8	16.9	17.0	16.6
Purchased Materials	7.3	7.5	7.8	8.0	8.0	8.1
Goods-in-process	2.3	2.4	2.4	2.4	2.4	2.4
Finished Goods	6.6	6.6	6.5	6.6	6.6	6.2
Wholesale, Total	8.2	8.4	8.6	8.5	8.3	8.5
Durable Goods	3.2	3.3	3.2	3.1	3.0	2.9
Non-durable Goods	4.9	5.2	5.4	5.4	5.3	5.5
Retail, Total	14.0	14.5	13.9	13.5	13.9	15.6
Durable Goods	5.4	5.5	5.4	5.2	5.2	5.4
Non-durable Goods	8.7	9.0	8.6	8.3	8.7	10.2

Source: Department of Commerce. *—Postwar peaks.

Trend of Inventories



Happening in Washington

PUMP PRIMING AHEAD?

By E. K. T.

MENTION of pound sterling devaluation is received by the British colony here almost as unfriendly comment. Labor Government representatives will wager no such action will be taken in 1949 but say the future of any monetary system is too uncertain to carry the bet beyond January 1. With an election in the offing, unions restive, living costs zooming, and pay rates relatively constant, devaluation could cheapen exports, increase import costs, embitter the workman his party needs.

> **WASHINGTON SEES:**
>
> Conflicting schools of economic thought are moving toward a showdown on whether pump priming is the solution to approaching business problems. Pouring tax billions into made work understandably appeals to a large section of congress. It's the simplest way. Some remind that it panned out well when last tried — conveniently forgetting that preparing for and waging the war were the added ingredients that restored business in the long run.
>
> Recent economic studies show that the real issue may be out of focus. Raised is the question whether purchasing power needs strengthening, and cited are the facts that national income is holding up, bank deposits are huge, industry has abundant working capital.
>
> There is less disposition by management than by individuals, to spend. Yet it is the rapid turning over of the industrial expansion dollars that holds the key, say the anti-pump primers. Abandon artificial methods, they urge; take a realistic view of federal spending and taxes, and give business the incentive to go ahead. It's a program that calls for political courage, but it is gathering encouraging strength. Basis for worry is: Will it, when it comes, be too little, and too late?

PROVING that government can move with competence and dispatch, was the recent attack on the problem that grew out of a 1.3 billion bushel wheat crop which growers and warehousemen said was too large to be stored and might have to be passed on to speculators for 50 cents a bushel less than loan value. Congress acted promptly: CCC powers were broadened to permit financial aid for warehouse construction, meanwhile attempting to find storage space in idle war plants, airplane hangars and the like.

RESULTS were immediate. Wheat price began to climb sharply. Warehousemen who apparently had committed space to hopeful speculators, now offered it to the farmers, and it was snapped up. Worries over non-storable grain had raised serious question of acreage allotment wisdom, in 1950. And in the chain reaction the senate approved the International Wheat Agreement which postpones the day of acreage reduction, sets up another four-year foreign market.

ECA FINANCING entered a new phase when Administrator Hoffman ran into economy talk by the senate appropriations committee. Up to that point he had defended costs on the basis of Europe's needs alone; now he resisted cuts on the ground that this country will suffer serious loss of export trade if the ECA dollars needed by Europe to finance imports are substantially cut. Against a backdrop of some business recession and record crops, ECA was depicted a domestic recovery prop, in a sense. The argument won votes in areas bereft of global thinking.

THE FEDERAL DEFICIT for the fiscal year ending June 30 should be around $2 billion. Of course the books aren't going to show it because the 80th Congress passed a law that calls $3 billion of last year's big surplus this year's income. It will be different in the next fiscal year for which deficit estimates range from $5 billion to $6 billion. Preparations for deficit financing are well on their way.

As We Go To Press

Supreme Court's decision in the Standard Oil "exclusive contract" case placed on the record judicial ideologies of uncommon interest to the corporate and federal bars. The court struck down Standard's exclusive supply contract with independent dealers; but there were hairline distinctions in the reasoning of the judges, points at which the economic effects of the law seemed to be weighed with as much care as the written words of the anti-trust statute.

When it is remembered that the bench, only a year ago, upheld the Federal Trade Commission's position that the anti-monopoly law must be strictly applied even though the economic results might be unfortunate (the "cement case" involving basing point pricing), the decision becomes more interesting.

To sustain the oil company conviction, the high court judges merely had to find that the lower court correctly held that suppression of competition is invited under the contract policy and in its application. But at that point the justices went on to indulge in economic philosophy not related to the evidence shown or the decision made on precise facts at bar.

Justice Jackson, supported by two colleagues, pointedly asked if an exclusive contract arrangement, rather than to stifle competition might not with equal force be used to wage competition. With one judge already on record for dismissing the charges against Standard, this created an alignment which finds one short of majority disagrees with the Department of Justice. Suggested is the possibility that in another case, on almost the same facts, the high court might rule that exclusive contracts are wholesome aids to competition.

Sidelight in the opinion still being widely discussed (more in political than in legal circles) was Justice William O. Douglas' fiery dissent. Nothing Douglas does seems to be disassociated from rumored 1952 plans on -- or "in" -- his behalf. He adds fuel to the fire in this one. While the majority and minority opinions savor of the law library, his dissent smacks of the political campaign platform.

Apparently speaking direct to congress, Douglas professed to see the court pushing corporations into monopoly, and he orated: "Big business has become bigger and bigger, monopoly has flourished. Cartels have increased their hold on the nation." Then, switching from a quasi-political role to that of a jurist, he voted to uphold the exclusive contract policy of the oil company!

Congressional action to initiate reforms in the business of government, proposed in the Hoover Commission reports, can implement up to 60 per cent of the streamlining ideas with almost no delay or controversy. Which would seem to be a long step toward realization of goals adding up to greater efficiency in government while saving 3 billion dollars in operations. Actually, however, the outlook is impressive from the numerical standpoint, otherwise it is not.

The Hoover Commission listed 280 specific recommendations for recasting the Executive Branch. The President already had the power to make 30 per cent of them effective. Executive Orders could turn the trick. The enabling act passed by congress and approved by the President envisions an added 30 per cent, but by a somewhat slower process; either house may veto an item by majority vote of its entire membership, within 90 days after its submission.

But the importance of the Hoover plan rests in the 40 per cent of its parts which must be made subjects of special legislation. There is where the efficiency and the economy must be brought to flower; there is where old agencies, old ideas, and old retainers must be uprooted. And Herbert Hoover, experienced in ways of congress, is not sanguine over the outlook. Lawmakers, giving lip service to reorganization, now see an argument for dilatory tactics on the essential reforms. Wait until the first segments have their trial by ordeal, they will suggest.

While warning the armed agencies they must unify in spirit, Capitol Hill is the source of some of the major barriers to unity. That the navy is the "forgotten arm" is a plaint which simply will not die. One of the reasons is that navy-minded Rep. Carl Vinson, chairman of the house armed services committee (longtime chairman of naval affairs) will not let it die. Vinson is determined to use his position as a club to force concessions to the navy, doesn't like the present setup, has said flatly the second unification will wither in committee unless he's assured it will be administered along lines of his personal blueprint.

Public statements on pending legislation by Dwight Eisenhower and Harold Stassen, while confined to the subject of education, are being finecombed here for possible political significance. Actually, there's none to be found. Eisenhower commented as President of Columbia University, and Stassen came to the capital to speak for the University of Pennsylvania, which he heads. In the case of Eisenhower, particularly, sweeping inferences were drawn. A group of newspapers which urged him to run in 1948 took his comments on the education bill as the opening gun in a new campaign of public activity, began building his platform around the surmise.

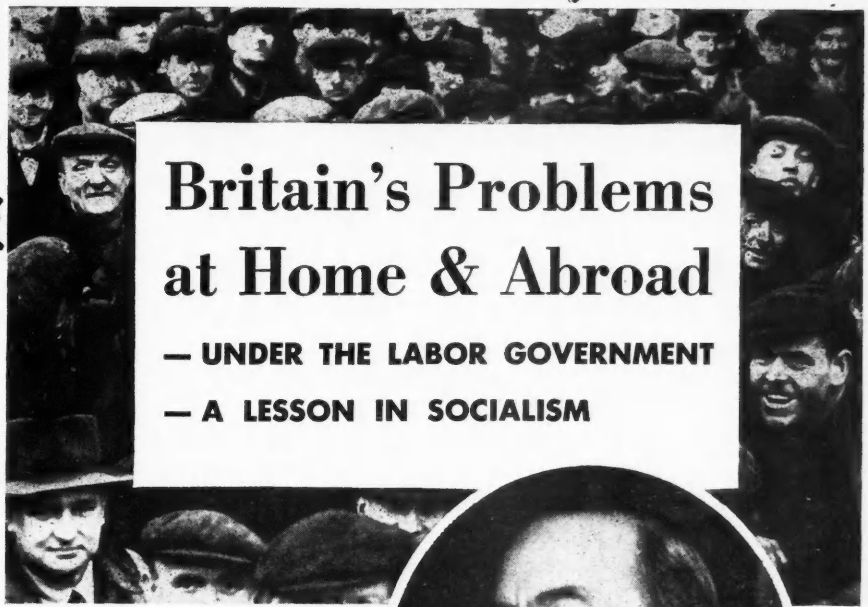
Stassen, of course, has been a Presidential hopeful for years, probably will continue to be. And his present position and contacts can help his cause. Those who believe Eisenhower could have been drafted in 1948 (and they still are legion), remember his statement of unavailability -- "at this time" -- and his deprecation of military training as a background for the President.

As an educational administrator, "Ike" would present a different background in 1952. The military associations with another candidate, (Chief of Staff under Harry S. Truman) which existed in 1948, now are severed. So, Eisenhower can't be counted out, but if he enters the political race it will be much more dramatically than as a volunteer adviser to congressional committees.

There was anything but inactivity in the stabilizing moves by John L. Lewis this month. The mine workers' boss was working feverishly to create a setup for allocation and control of coal output. Objective: higher coal prices by linking operators to a program to pass on wage boosts to the consumer. Northern mine owners are willing to "go along," but will be met by opposition from southern producers, consumers, and, possibly, the Department of Justice which sees the taint of anti-trust law violation in the whole idea.

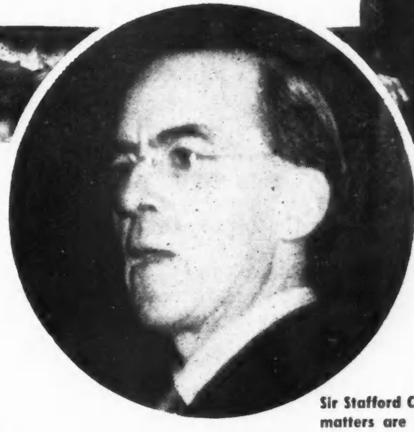
Prospects are becoming stronger that Secretary Brannan's much discussed plan to aid farmers will end as a plank in next year's congressional campaign rather than become law in the current year. The obvious social tinge to the Secretary's measure is so distasteful to many Democrats that the chance is slim for even an experiment with a few selected farm commodities as suggested by him. Difficulties showing their head in the British trial balloon are not likely to win favor for similar experimentation here at home, though some Congressmen next year may consider it a vote getter.

A matter that is perplexing Washington observers is why the President persists in pooh-poohing anything said or done about the communists, as witness his dismissal of the current communist hullabaloo as "hysteria" and "headline hunting." This is all the more amazing because it is not the "infamous" House Un-American Activities Committee that is monopolizing present headlines, but the Administration's own Department of Justice.



Britain's Problems at Home & Abroad

— UNDER THE LABOR GOVERNMENT
— A LESSON IN SOCIALISM



Sir Stafford Cripps admits that matters are getting worse.

By JOHN DANA

The sharp April drop in British exports, to $550 million from $640 million in March, has caused a good deal of consternation in England and elsewhere, not the least in this country where the downward trend was generally viewed as evidence of Britain's continued inability to right her economic affairs despite large-scale American aid. Britain, a primary beneficiary of the Marshall Plan, is not only a keystone of European recovery and trade but also an important factor in world commerce. Any serious slump would therefore not only undermine and retard the European recovery process but sooner or later hit back at our own country as has always been the case when Britain found herself in economic straits. It is for these reasons that accumulating signs that Britain's recovery drive is sliding into a slump is creating no little concern. Few disagree that in the months to come, the trend of British exports will be downward.

Photo by Wide World

American sales of British motor cars have suddenly dried up.

The prospect of diminishing exports naturally causes a good deal of nervous pulse feeling in the Island Kingdom, in strange contrast to the pride and satisfaction felt only a few months ago when the Government was able to announce long strides toward economic recovery. At that time, the nation's production was at an all-time high and a balance was almost achieved in British trade with the rest of the world, though an aggravating shortage of dollars persisted. Why, then, the rapid change in atmosphere from one of justified jubilation to one of deep gloom?

To put it briefly, Britain has been hard hit by the return of global buyers' markets. She is also suffering a rude blow of awakening from the belief that by adopting Keynesian policies of full employment and planned economy, she could isolate herself from slumps and setbacks in the rest of the world. Instead, Britain is severely feeling the impact of declining prices and weakening markets in the U.S.A. Her principal difficulty lies in the rigidity of her own price structure.

Her costs and prices are too high to compete successfully in many markets, but particularly in the U.S.A. and Canada where Britain must sell if she is to earn the means to pay for vital imports. Despite Marshall Plan aid, she still cannot make ends meet in trade. British goods, because of high prices, are meeting sales resistance all over the world and this is a serious matter not only economically but politically as well, since it threatens to upset the Government's carefully laid program of achieving economic solvency and stability.

Besides high prices and buyers' resistance, British manufacturers are harassed by mounting import restrictions in many parts of the world. Only recently South Africa slapped on new limitations, preceded by similar measures in Argentina, India, and certain European countries. Moreover, the selling of British goods has generally been made more difficult by recurrent talks of sterling devaluation, causing would-be buyers to hold off orders, and customers to delay payments, in anticipation of a cheaper pound.

Impact of U.S.A. Recession

The recession in our own country, one of the main targets of the British export drive, is felt particularly painfully, and there is additional fear that our financial aid to Europe may be reduced by an economy-minded Congress. Sales of British motor cars, for instance, have simply dried up and will be difficult to revive unless prices come down. Also suffering are American sales of virtually every type of other British export goods, such as textiles, shoes, cutlery, for the simple reason that they have been priced out of the market. Thus against the official British admonition calling for more and more production as the only salvation stands the inescapable fact that prices, not production, are setting a limit to exports. It is a situation that portends a grim struggle and possible political upsets, for British producers find it impossible to get costs, and thereby prices, down to a point where they can compete.

In other words, something has got to give. Pressure is building up on all sides so that an explosion appears almost inevitable. But what form it may take remains, at this juncture, a matter of conjecture.

The pressure is both internal and external. High production costs show up in wages, taxes, obsolete plants, antiquated production methods, and high priced raw materials. British workers are restive. They resent the freeze in wages, high living costs and lack of relief, and demand higher real wages, lower living costs, and bigger and better Government subsidies and social services. Far from satisfied with what a paternalistic Labor Government has done for them, they show disappointment that it hasn't brought the economic utopia hoped for; they are impatient after long years of painful austerity.

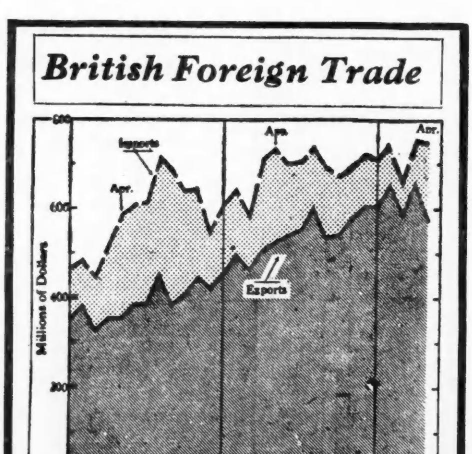
Many British plants and production methods are antiquated. Though modern machinery is frequently available through ECA, workers are inclined to resist their installation for fear of jeopardizing their jobs. And "featherbedding," as in this country, is prevalent in many forms. All of which tends to pad payrolls, adding to manufacturing costs.

Then there is the vital question of materials costs. British manufacturers are bitterly complaining that the Labor Government's policy of "bulk buying" of raw materials is resulting in excessive costs, placing British processors at a disadvantage in world competition. After the war's end, the Government signed long term contracts with foreign countries at fixed prices to get essential supplies. At that time, with prices generally in an uptrend, it was thought good policy, but it is backfiring now that prices are declining. It inflicts a handicap on exporters who are compelled to use dearer raw materials than their competitors. Yet the Government is loath to accede to suggestions to abandon the policy. An important reason is that it is closely linked with the policy of stimulating trade within the British Commonwealth and also with the policy of bilateralism.

In view of all these factors, reducing costs and prices is a difficult if not impossible task. True, factory wages are far below those prevailing in this country but actual labor costs are higher because of much lower worker productivity. And the nationalized industries are not efficiently managed. All of which makes for growing internal pressure with no easy way out. Quite likely, the going will become rougher. Unless Britain can step up her exports by lowering prices, she will be forced to cut her purchases abroad or else cover the mounting dollar deficit with her greatly shrunk gold hoard or liquidate what remains of her dollar assets. Cutting down imports, already restricted to essentials, would mean a further lowering of living standards with the inevitable political repercussions.

Devaluation No Panacea

A number of expedients are being suggested as a way out of this dilemma, chief among them currency devaluation as a means of reducing prices of British goods, but official opposition remains strong on the theory that existing problems will not be solved by a cut in the pound's value. Devaluation, moreover, will create new problems by raising the cost of imports and living costs, and intensify demands for higher wages. The official feeling is that Britain has not yet reached the point where devaluation is essential and premature action might have adverse repercussions. In the long run, of course, it will hardly be avoidable. Doubtless sterling is overvalued but its cheapening would be no more than a temporary expedient, one that doesn't go to the root of the evil — rigid economic control and all the encroachments inherent in a socialistic welfare state which make for waste and inefficiency. Nevertheless the urge to devalue, if only in token fashion, is strong.



It is here where external pressures enter, exerted by the International Monetary Fund, the Economic Cooperation Administration and even by U. S. Treasury officials who are critical of Britain's economic practices and high production costs and believed to favor a general readjustment of European exchange rates including that of sterling. European currency devaluation on a rather broad scale is expected in the not too distant future, possibly this autumn; if so, pressure

for British devaluation will mount. It remains to be seen whether in the face of a steadily deteriorating trade situation, Sir Stafford Cripps can hold to his policy of opposition to monetary tinkering. His views lean towards increased production and greater industrial efficiency, aims that may be difficult to achieve. Actually the arguments whether Britain should devalue are in some ways rather academic since the pound is already devalued in many transactions made at special rates of exchange, involving a discount of as much as 15%. Despite official attempts to discourage such transactions, there are so many leaks that the practice is impossible to stop.

Widespread European Criticism

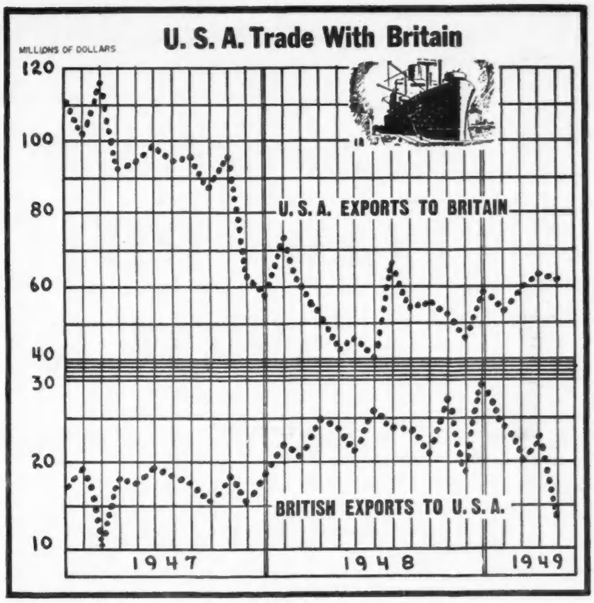
Much criticism of Britain's monetary policy arises in Europe itself where participating countries in the Organization for European Economic Cooperation, organized to coordinate the recovery of Marshall Plan beneficiaries, complain that overvaluation of sterling prevents them from importing from Britain while as a result of their shipments to the sterling area, they accumulate sterling funds which they cannot use. The effect, it is contended, is to throttle not only trade with Britain but all over Western Europe.

At present O.E.E.C. is trying hard to remove exchange controls, import restrictions, tariff and preference barriers which are militating against freer trade among member countries, and its battle with Britain grows hotter as it attempts to break up bilateral trading. What is wanted is more trade among the Marshall Plan countries, requiring a policy that will free European currencies from control. For such a far-reaching step Britain is not yet ready; free convertibility of sterling, she fears, holds the danger of capital flight and a heavy gold drain. Alternate suggestions to a loosening of the payments system including devaluation involve British relaxation on price-fixing and output restrictions. These are matters still subject to negotiations.

To a degree, the trouble with sterling at this time is as much political as it is economic. Many of the currency problems of all the Western European nations would disappear or be greatly minimized if the trade that is ordinarily considered normal between East and West could be resumed. The obvious necessity for such resumption presents a dilemma to the West, since such trading would tend to bolster the leftist political regimes in the East and possibly strengthen Russia herself, but the very economic necessity may portend an early change in attitude. Because of the differences in political climate, the political block to East-West trade has been greater here than in England, but of late, views in this respect appear to have been less apart.

The Restive Laboring Man

As evident from the foregoing, Britain's problems are complex indeed and their solution is complicated by political considerations and the troubles the Labor Government is having with the laboring man himself. The Labor Party at its recent annual conference managed to present a show of unity and defeat attempts of revolt by disgruntled trade unionists against the Government's wage freezing policy but this and other major issues remain, including the controversy over housing policy and nationalization of industries.



It stands to reason that in the face of urgent need of lower prices, the demand for higher wages is particularly inopportune. Chancellor Cripps correctly stated that what is required is more production, and particularly more efficient production. But recent strikes and slowdowns imply that labor is not in the mood to step up efficiency, nor do trade unionists and the Labor Party appear convinced of the necessity of formulating policies that make for efficiency. The former insist on having a voice in industries already nationalized, and demand more nationalization than Labor Party leaders contemplate. They admit that nationalization has not worked too well and that criticism is justified; nevertheless they ask for more of it and for workers' participation in industrial management. Such demands are hardly likely to spur industry leaders to greater efforts; rather they will tend to exhaust whatever goodwill the Labor Government has left outside of party ranks.

Early Accounting at the Polls?

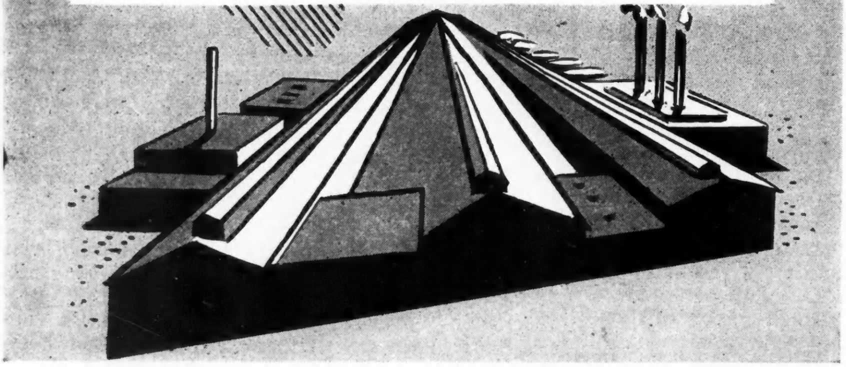
There are those who believe that the forces exerting economic pressures make an early election inevitable and that it is difficult to see how the Labor Government can avoid the fate of having to pay for their "economic sins" now rapidly being exposed. Doubtless the political pot is beginning to boil and further deterioration of Britain's economy will raise temperatures all around. The Conservative contention is that Socialist planning has proved a failure, that it has cramped business, overloaded the taxpayer, caused waste and inefficiency, and imposed undue austerity on the people. These are charges that can hardly be gainsaid.

Labor leaders, on the other hand, insist that the average man in Britain today is better off than he ever has been. They point to the numerous social benefits he enjoys, and their political task will be to convince the voters that they are worth the unprecedented taxes they have to pay, that they are worth their cost in work and deprivation. They will also have to convince Britons that the Government has done everything pos- (*Please turn to page* 350)

Special Study of

LOW PRICED STOCKS

PART III—By H. F. TRAVIS



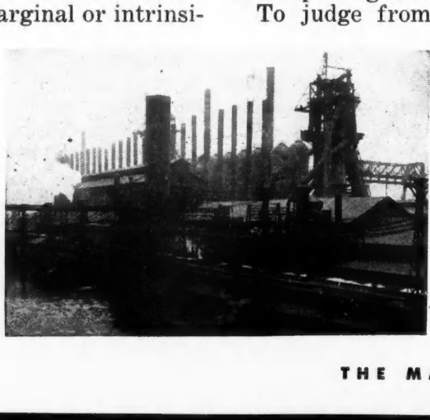
The progressive deterioration of stock prices in recent weeks has accentuated the timeliness of our continued study of shares quoted below 25. As of June 10, the MWS Index of 100 low-priced stocks declined to 120.74, the low point since 1945, though this factor also applied to our Combined Average of 320 stocks. It is further interesting to note that though low-priced stocks have receded from their 1948-1949 highs about twice as fast as those in the upper brackets, the rate has recently been reversed with our Index of 100 high-priced stocks reaching a low since 1944 of 70.88.

We cite these statistics less with the idea of suggesting that a sound base has now been established for a broad market advance, than to indicate that any further market decline by the low-priced group percentagewise may be less drastic. While there's no saying how low shares of some marginal or intrinsically handicapped concerns may sell, it is safe to assume that confidence in the managerial, financial and trade positions of numerous sound enterprises eventually will lift prices for their shares from current abnormal levels or from lower ones that may yet develop. As stated in our previous articles on this subject, the low-priced shares may ultimately offer a particularly efficient springboard for satisfactory speculative programs, provided proper timing is observed.

The great number of low-priced shares listed on leading stock exchanges has enabled us for the third time to present our readers with brief statistical information covering 25 issues in this category. While analysis discloses well founded reasons for the varying price behavior of these concerns, their study must probe deeper than price volatility, earnings, dividend yields or price-earnings ratios. Hence it is only possible, for space reasons, for us to add more than very brief comments in these individual cases, though our readers may receive supplementary information upon request. On a similar but smaller table, we have listed a few special concerns selected for somewhat more extended discussion.

Shares of ATF, Inc, recently quoted at 12, are hovering close to their 1948-49 low of 11, 33% below their last year's top and 53% under the 1946 high. The annual report for the fiscal year ended March 31 has not been issued at this writing but is expected to reveal net earnings around $3.50 per share, or closely comparable to those a year earlier, mainly hinging on results in the March quarter. But investors evidently are cautious in scanning the road ahead for this leading producer of printing equipment, in view of its drab prewar record. In the 1932-42 decade, no dividends were paid and annual volume averaged scarcely a fifth of sales in recent years. While the company has achieved a degree of diversification through production of chrome and plastic furniture and has added to its string of printing equipment subsidiaries, there is a chance that deferred demand may be well satisfied now and that normal sales may decline for some time to come. In the final quarter of 1948, sales to the printing trade declined by about 20%, and in view of current uncertainties it would be surprising if the trend has not been extended.

To judge from prewar experience, demand for printing equipment is highly sensitive to recessive influences; thus percentagewise the company's volume conceivably may decline rather fast from the peaks established in the last two years. While ATF's financial position is strong and its products in excellent repute, a sizeable drop in volume might reduce earnings rather rapidly. Despite conservative quarterly dividends of 25 cents per share



Statistical Data on Selected Low Priced Stocks

	High 1946	High 1947	Range 1948-49	Recent Price	Net Per Share 1946	Net Per Share 1947	Net Per Share 1948	1st Quar. 1949	Div. 1948	Div. Yield†	Price-Earnings Ratio‡
ATF, Inc.	$26½	$17	$17¾-11	$12	$1.61	$4.07	$3.48	....	$1.00 a	8.3%	3.4
Alden's	51¾	31½	21¾-13⅛	14	7.10	2.52	3.68 c	$ .07 f	1.50	10.7	3.8
Canada Dry Ginger Ale	19⅞	17½	15⅛- 9	11	1.07	1.31	1.31	.40 b	.60	5.4	8.4
Federal Motor Truck	21¾	14½	12⅛- 3½	4	1.50	3.11	.27	....	.40	10.0	14.8
Firth Carpet	28⅞	21¼	20½-11⅜	11	2.44	2.60	3.91	.77	1.60	14.5	2.8
Sylvania Electric Products	41	28½	26 -17⅛	19	1.97	2.10	2.84	.74	1.40	7.4	6.7
Virginia-Carolina Chemical	12⅞	10⅝	14⅞- 5	6	.87	4.90	6.29	3.69 e	nil	....	1.0
Worthington Pump & Machinery	22⅜	22⅞	25⅝-12½	12	3.21	5.86	5.17	1.42	1.25	10.4	2.3

†—Based on 1948 dividends.
‡—Based on 1948 earnings.
a—Plus stock.
b—Six months ended March 31.
c—For 13 months ended Jan. 31.
e—Nine months ended March 31.
f—14 weeks ended May 6.

plus an occasional extra in stock, the current yield of 8.3% may not be secure over a prolonged period, though as yet there is nothing to indicate an immediate threat to stability. To some of our readers, the current quotation of 12 for these shares may seem amply deflated, but it should be recalled that in the 1938-42 period the price range was high—9½, low—2⅝.

Alden's, Inc.

From a peak of 51¾ in 1946, the decline in price of Aldens, Inc. shares to their recent level of 14 obviously has been very substantial. Not since 1943 has the price been as low as now, though in the 1938-43 period the range of lows was 3½-9½. The downtrend in price in the past three years has run counter to a consistent gain in volume, and net earnings of $7.10 per share in 1946 were the highest in history. For 13 months ended January 31, 1949, when the company's new fiscal year terminated, net of $3.68 reported by this long established mail order concern and retailer was more in line with normal expectancies. More lately Aldens has had to face a decline in sales along with others in its field, additionally having to experience a sharp contraction in margins, probably due to inventory losses. For 14 weeks ended May 14, net amounted to only 7 cents per share. It can safely be assumed, though, that when inventory adjustments are fully completed and a larger portion of deliveries represent goods bought at lower prices, net earnings should be as stable as was customary for a long period of years.

Aldens has been established for more than half a century and its growth has been exceptionally steady. Concentration on offerings of popular priced wearing apparel and accessories stabilizes volume potentials and generally assures fair profits. Unless a really severe setback in business activity occurs, Aldens' shares appear to have rather liberally discounted transient difficulties and the prospect of somewhat smaller sales. The current price of 14 would allow for a considerably lower dividend over the medium term and yet provide an attractive yield, thus enhancing the speculative appeal of the shares.

While the price of Canada Dry Ginger Ale shares has now receded to around 11 from a 1946 top of 19⅞, the decline has been orderly and attuned to broad market action. Indeed, recovery from a 1948-49 low of 9 indicates the prospect of more favorable operating conditions. Study of the company's current status and potentials provide ground for optimism rather than apprehension. Seasonal factors account in large measure for a lower rate of earnings during the winter and early 1949 months. Prospects for stable volume are brightened by completion of nine new bottling plants last year, the allotment of markets to 75 new bottlers and the introduction of "nickel drinks" for the first time. Lower prices for sugar have made this latter move possible and reduced costs of materials should be beneficial to earnings on all soft drinks manufactured by Canada Dry.

For ten consecutive years, sales of this aggressive concern have established gains, and while earnings gains have not been proportionate, the increase has been encouraging. In the current year, volume of soft drinks may decline moderately and uncertainties in hard liquors may handicap sales somewhat, but in general operations should be very satisfactory. The conservative 15 cents quarterly dividend seems well secured, though a yield of 5.4% is not overly attractive in the light of current market conditions. On the whole, the shares are not unreasonably priced and carry limited speculative attraction.

Federal Motor Truck Co.

Producers specializing in motor trucks for over a year past have been struggling with a rapidly shrinking demand following eight years of satisfactory business. The experience of Federal Motor Truck Company bears this out, with the result that its shares have fallen in price to around 4 compared with a 1946 high of 21¾. This latter peak reflected the beginning of boom times that could not last indefinitely and clearly reflected exaggerated optimism. That the company earned $3.11 per share in 1947 was one thing, but volume last year plummeted about 50% and the management did well in earning 27 cents a share. While earnings for the March quarter have not yet been reported, volume was sharply down from a year earlier and the management admits running into the red. Thus far in 1949 no dividends have been paid and chances for resumption seem remote.

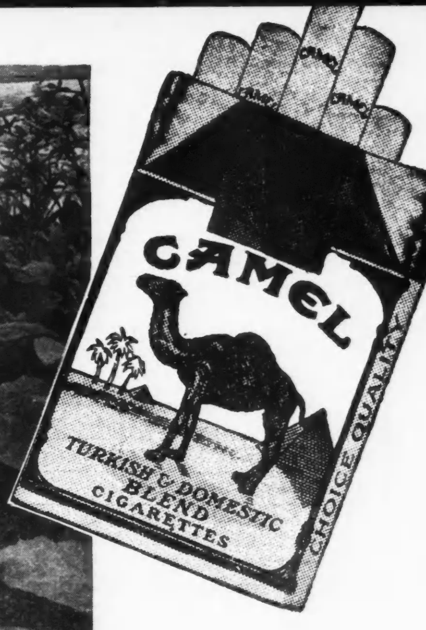
Federal Motor Truck Company enjoys ample working capital, has a fine reputation in its field, especially as a provider of truck fleets, (*Please turn to page* 349)
(*See page* 332 *for table*)

*Statistical Data on Low Priced Stocks**

	Range 1946-49	Recent Price	—Net Per Share— 1948	1st Quarter 1949	Div. 1948	Div. Yield	Price-Earnings Ratio	COMMENTS
American Bosch	$9½- 7⅝	$8	$1.74	$.49	$.75	9.4%	4.6	Recent merger with Amra should expand scope. Heavy backlog suggests ample earnings to cover dividends. Stock reasonably priced.
American Hide & Leather	12⅞- 3⅛	4	1.06	.83 b	Nil	—	3.8	Inventory adjustments probably completed. Nominal earnings possible but dividends remote. Highly speculative.
American Locomotive	44½-13⅛	13	2.30	—	1.40	12.3	5.6	Slack demand a problem but unfilled orders assure fair earnings for a while. Current price heavily discounts lower volume.
American Machine & Foundry	45¼-11⅝	12	1.38	.34	.80	6.6	8.7	Continued rather stable earnings expected from sales to active tobacco industry, but shares have limited appeal.
Armour	18½- 5⅛	5	def1.22	—	.90	18.0	—	Struggling to regain profitable operations under cost-price handicaps. Share price well deflated.
Bayuk Cigars	31¾-11⅛	11	2.71	.14	1.50	13.6	4.1	Strong trade status indicates current downtrend in earnings may reverse when dealers resume inventory accumulation.
Bath Iron Works	39¾- 8⅞	11	1.31	—	1.00	9.1	8.4	Sharp rise in backlog orders foretells continued satisfactory results. Shares have speculative attraction.
Blaw-Knox	30⅞-11⅝	12	2.87	.66	1.25	10.4	4.2	Increased deliveries and well sustained backlog encouraging factors. But current price may be vulnerable to changing conditions.
Butler Bros.	39¼- 6¼	6	.43	def.34	Nil	—	14.0	Drab long term record accentuated by current inventory problems and curtailed demand. Only moderate speculative appeal.
Continental-Diamond Fibre	18⅜- 6¼	6	1.88	.36	1.00	16.6	3.2	Reduction of quarterly dividend to 10 cents reflects operating handicaps in readjustment period. But share price makes ample allowance.
Curtis Publishing	26 - 5⅛	5	.69	.20	Nil	—	7.2	Share price appears well deflated in view of prospects of lower paper costs and increased advertising revenues.
Dayton Rubber	34½- 8⅝	9	1.44	—	1.20	13.3	6.2	Moderately lower earnings may cause smaller dividends but share quotations have largely discounted this potential.
Emerson Radio & Phonograph	24½- 6½	13	3.00	2.37 c	.97½	7.5	4.3	Increased television sales and higher dividend lend speculative attraction to shares near current level.
General Railway Signal	48 -15¾	16	3.88	.56	2.00	12.5	4.1	Shares at low since 1945 seem reasonably priced. 25 cents quarterly dividend should be safe.
Greyhound Corp.	18¼- 9	11	1.70	.06	1.00	9.1	6.5	Seasonal factors account mainly for low first quarter net. Share price only moderately attractive, though.
Heyden Chemical	45¼-16	16	2.04	.38	1.00	6.2	7.8	Good long term record lends appeal to shares at current deflated level. Dividend probably secure.
Houdaille-Hershey	28⅜-10	10	2.95	1.02 c	1.00	10.0	3.4	Low price for shares reflects narrowing margins and outlook for downturn in automobile industry in coming months.
Jacobs, F. L.	24½- 2⅞	3	.41	def.26	Nil	—	7.3	Earnings adversely affected by sharp drop in demand for vending and washing machines. Share quotations reflect slim chance for dividend resumption.
Pepsi-Cola	40½- 7½	10	.55	.10	.42½	4.2	18.2	Margins continue to be pinched by heavy costs, though improvement possible. Shares reasonably priced in view of absence of dividends.
Revere Copper & Brass	31¾-11½	12	5.02	1.12	1.25	10.4	2.4	Uncertain conditions in non-ferrous metals have been rather liberally discounted by share price decline.
Socony-Vacuum Oil	23 -14½	15	4.18	.82	1.00 a	6.7	3.6	Shares at present level allow adequately for lower earnings. Dividend appears entirely safe.
Standard Steel Spring	25 -10⅞	13	3.82	.97	1.25	9.6	3.4	Despite continued high earnings and good dividend record, share price reflects uncertainties ahead. Fair speculative appeal.
Stewart-Warner	26⅜- 9¾	10	2.44	.31	1.50	15.0	4.1	Shares at five-year low carry speculative appeal, as operations under more normal conditions should yield satisafctory results.
Vick Chemical	51½-19½	21	2.66	2.82 b	1.20	5.7	7.9	Sound fundamentals enhance the investment and speculative potentials of this well situated concern at current prices for its shares.

*—Figures adjusted for stock splits.
a—Plus stock.
b—Nine months ended March 31.
c—Four months ended April 30.
e—Six months ended April 30.

Photo by Devaney



. . . . INVESTMENT AUDIT OF . . . .

Reynolds Tobacco

By H. S. COFFIN

Picture an enterprise with firmly established markets that purchase an average of about 200,000 of its single units per minute, day in and day out during the year, and you have R. J. Reynolds Tobacco Company. What's more, this accounts for unit sales of Camel cigarettes alone that run the annual score up to a prodigious total of more than 100 billion, without allowing for the company's output of Prince Albert Smoking Tobacco and other branded products. Achievement of such a turnover has required decades of aggressive merchandising, and consistent success in a highly competitive field has understandably created high investor regard for the company's shares.

Since 1911, when this company was segregated from American Tobacco Company, the management has given its former parent a stiff battle for supremacy in the cigarette field. At various intervals, first one and then the other would win the lead, late years established the Reynolds concern in second place as to annual volume in the industry but not too far behind its main competitor. Last year's total consumption of 387 billion cigarettes of all brands allotted 27.4% to Reynold's "Camels" and 29.5% to American Tobacco's "Lucky Strikes," with Liggett & Myers sharing to the extent of 20.2%. As a matter of fact, the annual contest between numerous cigarette brands, while interesting to watch, holds less significance than is often accorded to it, for over a period of years the relative shares of markets have not varied very much. As regards R. J. Reynolds, the more notable fact is its record in expanding volume as result of increased consumption of tobacco rather than by making inroads into competing brands.

Public taste for tobacco has always been exceptionally selective, and as leading brands of cigarettes are relatively inexpensive, there is little inclination to shift from one brand to another once taste approval has been established. Recognition of this, many years ago, led R. J. Reynolds to concentrate on a single brand (Camels), rather than to produce a wider variety as so many competitors have done. Experience long ago taught the company that its special mixture of domestic tobacco leafs created satisfactory popularity and ever since, it has used its vast outlays for promotion to hold and extend its ground. It has recently been reported, to be sure, that Reynolds plans to introduce a new "king-sized" cigarette, but this would probably be aimed at a special market. As for smoking tobaccos, Reynolds' "Prince Albert" has long been its leading brand, though the company also produces four others. No less than twelve brands of chewing tobacco carry the company's name, and in this field Reynolds claims to hold a dominant position in the industry.

Few New Competitors

Despite a substantial increase in cigarette consumption throughout the United States in the last five years and widespread prosperity for most tobacco concerns, little new permanent competition has appeared. Heavy capital requirements for manufacturing and promotion have tended to bar competition from newcomers, moreover, considerable time and "know-how" is needed to introduce any brand successfully. Since cigarette consumption presently is about 42% in excess of 1942, Reynolds and a few other leaders are in a favorable position to exploit the expanding markets. Furthermore, the approach of a moderate or even severe recession in the economy should not affect the company much,

Long Term Operating and Earnings Record

	Net Sales‡ ——$ Million——	Operating Income	Operating Margin —%—	Deprec., Obsol., etc. ——$ Million——	Net Income	Net Profit Margin —%—	Net Per Share*	Dividends Per Share†	Price Range†
1948	na	$66.9	na	$1.8	$34.6	na	$3.26	$2.00	$41¼-33⅛
1947	$348.2	61.6	17.8%	1.9	32.1	9.2%	3.04	2.00	44⅛-36⅛
1946	288.8	51.6	17.9	.9	28.0	9.7	2.62	1.75	46⅞-36¼
1945	221.2	36.7	16.6	.9	19.2	8.7	1.85	1.60	40 -31⅜
1944	202.6	33.9	16.8	.9	17.2	8.5	1.72	1.50	35⅞-28
1943	199.8	37.8	18.9	1.0	18.6	9.3	1.85	1.50	32¼-25¼
1942	173.4	45.0	25.9	1.1	19.9	11.5	1.99	1.70	27½-20
1941	155.8	42.2	27.1	1.1	23.2	14.9	2.32	2.10	34¼-22⅛
1940	143.1	37.6	26.3	1.0	25.6	17.9	2.55	2.25	44 -30½
1939	138.8	34.7	25.0	1.2	25.6	18.5	2.56	2.30	45 -35
10-Year Average, 1939-48	$207.9 b	$44.8	21.4% b	$1.2	$24.4	12.0% b	$2.37	$1.87	$46⅞-20
4-Year Average, 1939-42	$152.8	$39.8	26.1%	$1.1	$23.6	15.7%	$2.35	$2.09	$45 -20

‡—Exclusive of Excise Taxes.
†—Class B Stock.
*—Combined Shares.
na—Not available.
b—Nine months average.

because in all such periods in the past, tobacco demand has shrunk only little and lower materials costs have widened profit margins. Indeed, it has only been in the last two years that Reynolds' net earnings have topped $32 millions as they also did at the bottom of the big depression in 1932, when leaf prices tumbled fast.

Price Supports Help Stabilize Tobacco Market

It should be realized, however, that conditions have changed since 1932 when tobacco leaf prices were allowed to drop disastrously. Federal acreage allocation plus price supports have helped to stabilize the tobacco markets, though prices from year to year still fluctuate a great deal. The price of leaf tobacco has more than doubled since 1940 and since leaf costs comprise more than 70% of total manufacturing costs, it is easy to see how importantly variations in price may widen or squeeze operating margins. This problem is naturally magnified for a company like R. J. Reynolds with annual volume exceeding $715 million (including excise taxes). Tobacco prices in the last half of 1949 are likely to harden because production of flue-cured is less than a year earlier, and the average price has advanced by about 8 cents per pound in the same period. The average quoted price, however, by no means establishes actual manufacturing costs for the company, for customarily a higher price is paid for fancier grades and costs of ageing the tobacco for at least eighteen months are considerable. On the other hand, Reynolds follows the usual industry policy of averaging the costs of all tobaccos purchased.

Only Limited Price Relief

Though little or no relief from high tobacco costs is indicated for 1949, those for numerous other materials have already turned downward and thus may somewhat offset the other factor. Prices for Burley tobacco, an important ingredient in cigarette manufacture, also are slightly below a year ago. Progessive advances in volume for a number of years past have enabled R. J. Reynolds to report stable or increasing earnings, although its margins have narrowed compared with prewar years. In common with its competitors, Reynolds has always refrained from pushing cigarette prices up significantly at any time, though if the stability of net income were seriously threatened, the company could easily do so.

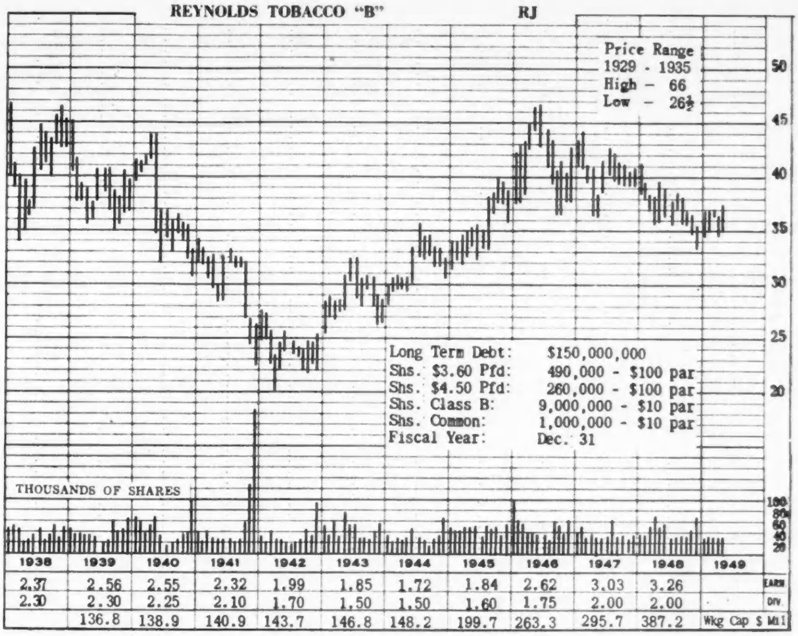
Under OPA controls, the list price of Camel cigarettes was increased to $6.81 per thousand and later to $7.09, less usual discount. With the end of controls in 1946, Reynolds raised the price to $7.35 per thousand, followed by an advance to $7.75 per thousand, less discounts, in July, 1948. Altogether, notwithstanding greatly increased costs in recent years, the wholesale price of Camels has risen by only about 1½ cents per thousand in 12 years, not including advances caused by higher Federal stamp taxes. How adequately these small price changes offset rising costs in a period when sales were expanding is shown by net earnings of $34.6 million in 1948 compared with $28.2 million in 1937 when taxes were much lower. We cite these statistics because they account for a stable earnings record that is likely to continue for the same reasons.

Financing of Large Inventories

To finance the operations of any business with annual volume approaching three quarters of a billion dollars would ordinarily require substantial amounts of working capital. But where raw materials have to be aged for a full year and a half before utilization and when they are increasing in both amount and costs the problem is greatly intensified. How the company handled itself under these conditions is interesting to note. Inventories of $459.6 million at the end of 1948 were $60 million above a year earlier and almost $250 million higher than at the end of the war. Improvements to facilities in the same period involved net outlays of more than $16 million or thereabout. In order to meet these sizable capital problems, the company in each year of the 1945-48 period, inclusive, issued long term obligations or preferred stock aggregating $225 million, besides which it retained about $35 million of earnings. The proportions of preferred and debt were conservatively established to maintain a proper balance.

On an appended table, we present the December 31, 1948 balance sheet of R. J. Reynolds Tobacco

Company. From this it will be seen that the various items have radically changed from 1940. Total assets have expanded $349 million in the space of eight years and working capital has been increased by $248.2 million. The current ratio, though contracting from 9.3 to 4.5, is still highly satisfactory despite an abnormally large proportion of inventories in relation to cash and receivables. The ready marketability of raw tobacco and the company's well assured turnover justifies the large inventories carried.



Of particular interest to present or prospective shareholders is the element of prior charges on securities senior to the common stocks (voting and Class B). Reynolds' high credit standing has enabled it to issue one loan of $90 million due 1952-72 at 2½% and another of $60 million at 3%, maturing in 1973. Since the company earned about 12½% on its invested capital last year, the spread in relation to annual interest charges should be very beneficial to common shareholders in the long run. In a slightly lesser degree this also applies to the preferred stock, $49 million of which carries a dividend rate of 3.60% and $26 million of 4.50%. In a more volatile business, this leverage might serve to reduce earnings on the common fast in lean times but, as we have pointed out, the earnings of R. J. Reynolds are likely to remain unusually stable.

The annual retirements of funded debt should create no burden or threaten common dividends under normal conditions. Payments in the 1950-57 period will be $5 million in each year, rising in 1958-65 to $6 million and $7 million during 1966-72. Restrictions imposed under the debt agreements merely hold dividends paid on the common stock, or sums used to retire stock, to actual earnings since January 1, 1946 plus $15 million. It is interesting to note that total dividends paid on the common in 1948 were $20 million, or 59% of net, thus the "plus $15 million" is not likely to be called upon in the foreseeable future.

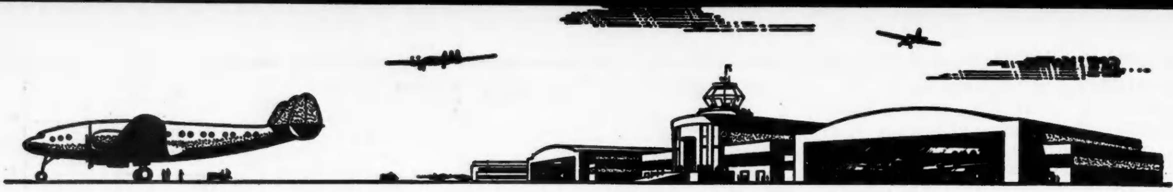
Simplifying the Capital Structure

While discussing the balance sheet of R. J. Reynolds it is pertinent to explain a plan recommended by the directors for simplifying the capital structure of the company. A special meeting of stockholders has been called for June 29 to act upon these proposals. Under the present setup, there are outstanding one million shares of common vested with voting power and 9 million shares of Class B common enjoying no such privilege. All but about 250,000 shares of the voting stock, as it happens, are owned by Reynolds' Retirement and Insurance Fund, or by company executives and employees. If the suggested plan is approved, full voting power would be accorded holders of the Class B stock and each share of common could be exchanged for 1¼ shares of Class B at any time period to March 31, 1959. In other words, a vastly larger proportion of about 61,000 investors now holding common stock of one kind or another face a prospect of having a voice in the selection of directors, and eventually there would be a single class of common.

Aside from this advantage, a more material one would arise from a proposed amendment to the by-laws providing for a gradual reduction in the amount of profits available for distribution to officers and employees now entitled to participate in proportion to their ownership of common stock. An annual reduction of 1% in the percentage now allowed would completely (*Please turn to page* 350)

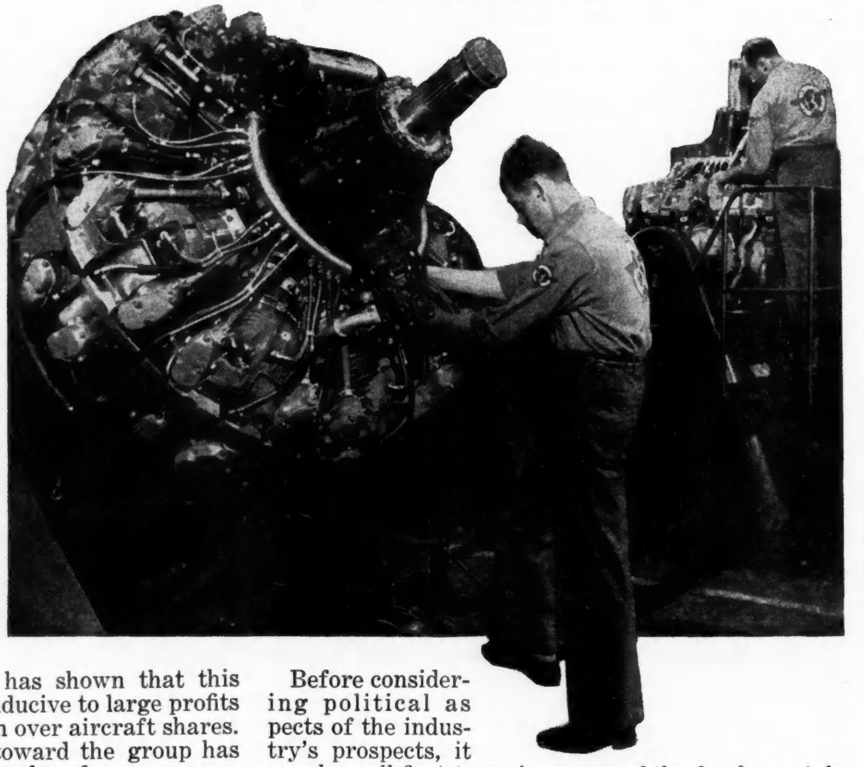
Comparative Balance Sheet Items

	December 31, 1940	1948	Change
ASSETS	000 Omitted		
Cash	$ 9,032	$ 17,306	+$ 8,274
Receivables, Net	7,431	20,690	+ 13,259
Inventories	139,276	459,696	+ 320,420
TOTAL CURRENT ASSETS	155,739	497,692	+ 341,953
Plants and Equipment, net	18,747	29,628	+ 10,881
Other Assets	6,581	3,378	— 3,203
TOTAL ASSETS	$181,067	$530,698	+$349,631
LIABILITIES			
Accounts Payable	$ 2,932	$ 5,306	+$ 2,374
Notes Payable	2,000	77,000	+ 75,000
Accruals, Including Taxes	11,854	28,156	+ 16,302
Other Current Liabilities			
TOTAL CURRENT LIABILITIES	16,786	110,462	+ 93,676
Reserves		1,049	+ 1,049
Preferred Stock		75,000	+ 75,000
Common Stock	100,000	100,000	
Long Term Debt	16,000	150,000	+ 134,000
Surplus	48,281	94,187	+ 45,906
TOTAL LIABILITIES	$181,067	$530,698	+$349,631
WORKING CAPITAL	$138,953	$387,230	+$248,277
CURRENT RATIO	9.3	4.5	— 4.8



Confused Prospects for AIRCRAFTS

By J. C. CLIFFORD



With all its remarkable technological achievements in promoting safety in the air, the plane manufacturing industry has failed thus far to develop a device for dissipating confusion that periodically beclouds the outlook for successful operations. Such an instrument would come in handy now. For despite indications of increased appropriations for military aircraft in the coming fiscal year, investor confidence in representative stocks has fallen to a low ebb.

Aside from the fact that speculative issues have suffered relatively more than better grade stocks in the recent general decline, several fundamental reasons may be listed for revival of a cautious attitude toward the aircraft group. Basically, doubts over future prospects trace to the fact that the industry is highly dependent on military orders—and experience has shown that this type of business is scarcely conducive to large profits that would warrant enthusiasm over aircraft shares. More specifically, skepticism toward the group has been intensified by shifting of orders from one manufacturer to another and by cancellations which have raised doubts over the reliability of government orders as a source of earning power. Confusion has been especially prevalent in recent months in reflecting inter-departmental jealousies in Washington as well as shifting tides in the European cold war.

Military Orders Industry's Mainstay

Because the outlok for new orders is rather promising—despite conflicting Washington policies—and because share prices in this group have experienced a sizeable correction, a discussion of prospects appears in order at this time. A careful study of many relevant factors will show that while large expenditures seem probable for military aircraft in the coming fiscal year, the extent to which individual manufacturers are likely to benefit remains obscure. For this reason, representative stocks in the group can scarcely be regarded as other than speculative even though several companies appear headed for a period of enlarged production. Even though the investor is prepared to accept speculative risks, it seems apparent from a study of underlying factors that a high degree of selectivity is essential.

Before considering political aspects of the industry's prospects, it may be well first to review some of the fundamentals contributing to instability and unreliability of earning power. Following are principal factors preventing development of manufacturing efficiency characterizing other industries on which investment policies may be founded:

(1) Despite tremendous postwar shrinkage in capacity and recent enlargement of Government orders, manufacturing facilities still are excessive. Except for three or four companies, it seems doubtful whether the industry can count on sufficient volume of business to warrant maintenance of present plants. Economic operations are difficult under such conditions.

(2) Because of continuing engineering progress and shifting of emphasis for military reasons from one type of plane to another, the bulk of appropriations is concentrated on comparatively few manufacturers, thereby intensifying problems for others.

(3) The outlook for earnings is obscured by the fact that profits on virtually all Government orders are subject to renegotiation—and procedure for such readjustments has not been settled.

(4) The equipment program of major air transport companies has returned to normal after virtual completion of large orders placed at the close of war.

As a result, manufacturers cannot look forward to any substantial business from this source for some time. This is an especially unfavorable factor for companies normally dependent on orders other than for military requirements.

(5) Gradual waning of interest in private planes because of limited facilities for air terminals, hangers, etc., and because of increased maintenance costs.

(6) Generally unsatisfactory results experienced by most companies which endeavored to diversify operations by venturing into non-aircraft activities.

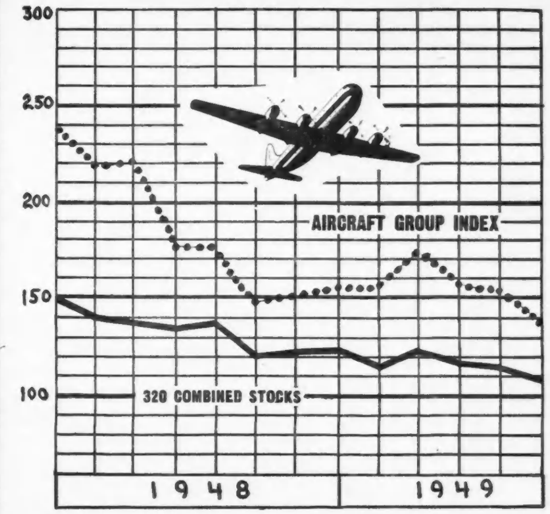
Despite these problems, the industry—as a whole—appears likely to experience another favorable year in 1949 provided results of renegotiation of contracts are no more disturbing than industry executives anticipate. Most informed officials expect Air Force and Navy negotiators to approve reasonable profits—in the neighborhood of 12 per cent before taxes or perhaps 3 to 4 per cent after taxes. Accordingly in the light of orders now in hand and awards in prospect, it may be well to consider production and financial data relating to principal manufacturers.

Reflecting larger appropriations authorized by Congress last year, the industry is expected to produce in 1949 approximately 3,000 military craft of perhaps 35 million airframe pounds, representing an increase of 25 per cent in number as well as in weight over 1948. Dollar value of deliveries may approach $1.5 billion, for an increase of as much as 35 per cent. What such a showing may mean in profits is problematical, for it seems doubtful whether any but a few concerns can develop a degree of proficiency that would attain best results. In addition, of course, eventual profits would be subject to later agreement on reasonable margins.

As mentioned earlier, Air Force orders are concentrated in the hands of four major frame manufacturers—Boeing Airplane, Consolidated Vultee, Lockheed Aircraft and North American Aviation. Moreover, it seems likely that these companies will participate to a large extent in appropriations for the fiscal year beginning July 1. This fact may be explained by the strong trend toward heavy bombers and transports. Procurement programs for fighters and trainers have been cut back to some extent.

Military authorities appear convinced that large modern bombers, such as Consolidated Vultee's B-36—center of Congressional (*Please turn to page* 351)

Aircraft GROUP INDEX vs. 320 COMBINED STOCKS

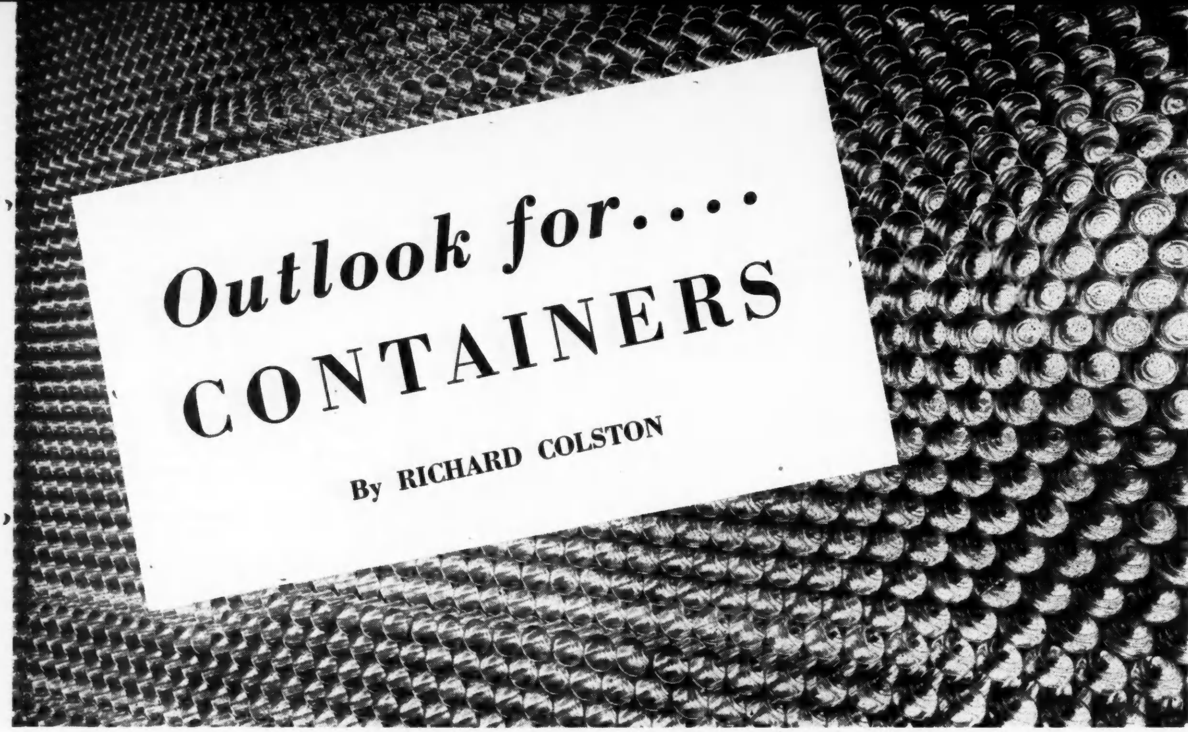


Statistical Data on Aircraft Stocks*

	Order Backlog ($ mill.)	Net Per Share 1947	Net Per Share 1948	Net Per Share 1st Quar. 1949	Div. 1948	Div. Yield†	Price-Earnings Ratio‡	Recent Price	Range 1948-49
Beech Aircraft	$14.7	def$3.03	$3.69	$ .99 a	$.67	9.6%	1.9	$7	10⅝- 5½
Bell Aircraft	30.0	def2.72	def.80	.12	1.00	7.1	......	14	19¾-10⅝
Boeing Airplane	359.0	def.41	1.59	.53	1.00	5.5	11.3	18	29½-17⅝
Cessna Aircraft	4.9	.53	.79	......	.25	8.3	3.8	3	5¼- 2⅝
Consolidated Vultee Aircraft	190.0	def14.42	def5.16	.43	Nil	......	......	9	16⅜- 7⅞
Curtiss-Wright	146.0	def.47	.46	def.17	2.00	25.0	17.4	8	12½- 4⅜
Douglas Aircraft	211.3	def3.57	9.72	3.34	5.00	8.9	5.8	56	67⅞-47
Fairchild Camera & Instrument	5.8	1.38	.44	......	.30	2.4	29.5	13	29 - 9½
Fairchild Engine & Airplane	90.0	.71	.67	......	.20	5.0	6.0	4	5⅞- 3½
Grumman Aircraft Engineering	133.9	2.29	2.39	......	2.00	12.5	6.7	16	25¾-15¼
Irving Airchute	1.0	.17	def.26	......	Nil	......	......	5	7½- 3½
Lockheed Aircraft	185.9	def2.30	5.80	......	1.50	8.8	2.9	17	24⅝-13⅜
Martin, Glenn L.	88.1	def16.91	def14.73	.35	Nil	......	......	8	22⅜- 7⅛
North American Aviation	266.4	1.28	1.97	.88 a	1.00	12.5	4.1	8	13⅜- 8
Northrop Aircraft	65.0	.54	1.16	.25 b	.25	4.2	5.2	6	13⅞- 5¾
Piper Aircraft	......	def.39	def.82	......	Nil	......	......	2	4 - 1¾
Republic Aviation	50.0	def2.11	2.19	.25	Nil	......	2.3	5	13⅜- 4¾
Ryan Aeronautical	11.7	def.32	.90	......	.10	2.0	5.6	5	7⅜- 3¾
Solar Aircraft	11.3	1.60	2.50	......	.45	4.5	4.0	10	14½- 8⅛
United Aircraft	330.0	3.21	3.06	.33	2.00	9.5	6.8	21	30⅝-20⅝
Wright Aeronautical	41.9	.85	2.53	def1.82	10.00	14.3	2.8	70	96¾-58

*—Figures adjusted for stock splits.
†—Based on 1948 dividends.
‡—Based on 1948 earnings.

a—Six months ended March 31.
b—Three months ended October 31, 1948.



Outlook for.... CONTAINERS

By RICHARD COLSTON

Several factors among the numerous cross-currents besetting the economy lend encouragement to manufacturers of metal and glass containers. While the struggle for popularity between the two type of receptacles continues apace and intercompany competition has reached a crucial stage, the overall outlook for a favorable year is rather bright for leaders in both branches of the industry.

For more than a year past, producers of glass containers have had to surrender gradually markets temporarily won from can manufacturers in war years when use of tin for commercial purposes was severely restricted. By degrees the scarcity of tin has been relieved, and with an increasing availability of tin plate many former users of cans now find their durability and price a predominant attraction. In brief, shipments of glass containers declined 8% in 1948 while those of metal base rose 10%. Chances are that this trend will continue for some time yet, though the relative percentage gains and losses may lessen.

While a decline in industrial activity may cause a receding demand for both glass and tin containers used in chemical, paint, cosmetics and numerous other enterprises, an offsetting and far more important element in the equation will be the continued high level demand for food containers and those required for bottled beverages. The marked increase in beer consumption alone since 1946 has stepped up demand for containers so impressively that though shipments of beer cans soared from 146 million gross to almost 2,900 million gross, those of glass beer bottles gained at least 25%. Thus both types are benefitting from prosperity in the brewing industry, though in varying degree. There is little evidence that demand from this important source will recede in the current year, and the season has arrived when purchases of all bottled drinks will reach their peak.

Equally important is the uninterrupted secular growth in demand for packaged foods of every description, and the prospect that truck crops will be highly satisfactory in 1949. Cold weather in California and possible damage from drought in some of the northeastern states seem unlikely to prevent food packers from canning their normally expected supplies. Continued heavy demand for canned fruits, juices and vegetables has tended to reduce the inventories of canners and provided a sound base for reaccumulating containers made of either glass or tin. The improved quality of canned foods and the fact that their retail price index in the last decade has risen much less rapidly than that for all foods, points to well sustained demand, especially if increased unemployment should pinch family budgets. Thus on the whole the outlook for container manufacturers holds much promise.

Stabilized Profits for Can Makers

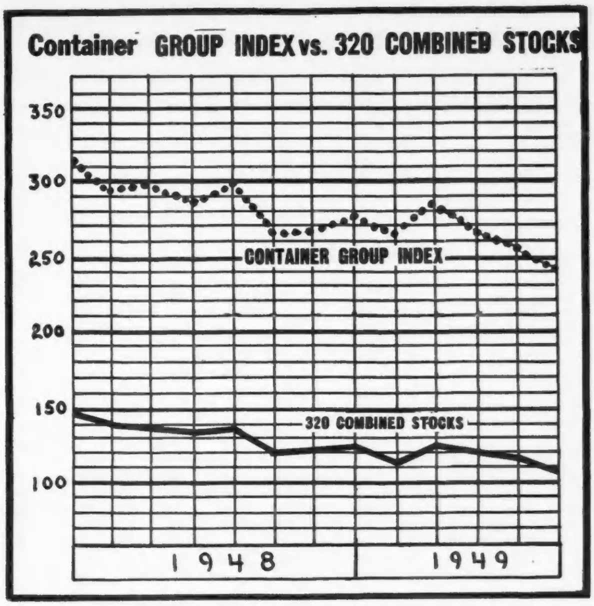
From an operating angle, producers of tin containers are facing conditions that should aid in profit stabilization during the current year, at least for the two dominant concerns in the field, American Can Company and Continental Can Corporation. These two account for about 75% of total industry volume. Their large size permits mass production of cans at lowest possible cost, with the use of expensive automatic equipment that has doubled their rate of output. Elaborate research facilities provide an advantage in the development of specialized containers to hold numerous kinds of foods and beverages, for not only shape and color are factors but chemical considerations as well. In this respect, for example, it is interesting to note that preliminary expense of more than $1.5 million was required in 1935 to perfect a can with suitable pressure and chemical components for beer, and several million dollars more were spent before brewers were satis-

fied enough to start a large scale shift from bottles. Widespread plant dispersion in favorable markets, ability to handle large yearly contracts and to make advantageous purchases of essential materials, plus effective pricing policies and expanding trade potentials, give both American Can and Continental Can a position that competitors find difficult to meet. Unit costs of these two large concerns are also reduced by spreading overhead on production of fiber containers, as well as on capping and sealing machinery leased to users of cans.

Good Start in 1949

American Can Company has started 1949 auspiciously with first quarter sales of $86.6 million, up $6 million compared with the same 1948 period. Though first quarter net has not been reported, the inceased volume probably widened profit margins slightly, for tin prices had remained unchanged for more than a year, costs of other materials have softened, and the company advanced its prices for cans 10% last January. Outlays of about $75 million for new or modernized facilities in the last three years have substantially enlarged capacity and to keep abreast of demand, further sums will be spent in the current year. Early in June, the Government further eased restrictions on the use of tin and barring a radical increase in stockpiling, the price of tin is more likely to recede than to become firmer henceforth. This is important, for costs of tin plate and wages account for about 80% of American Can's total operating costs.

With an increased availability of steel and the last half year normally the best period for container shipments, net earnings of the company this year should at least equal the $8.09 per share reported for 1948. American Can last year set aside $4 million to swell inventory reserves to $10.7 million or 14% of inventory valuations at the year-end; thus further deductions may henceforth be more moderate. The quarterly dividend of 75 cents a share is amply secured and the year-end extra should at least equal the one of $1 paid last December. American Can shares marketwise reflect the company's favorable potentials, a recent price of 89 being hardly more than four points below the 1948-49 high of 93¼ and well above the corresponding low of 76¼.



Dollar sales of Continental Can Corporation in the first quarter of 1949 were about 4% lower than a year earlier, as a result reducing net earnings for 12 months ended March 31 to $3.94 per share compared with $4.29 in the former comparable interval. The management hints that the slightly poorer showing was partly due to slackened demand caused by the January lift in can prices and partly to seasonal factors that have become more influential this year. No more than a moderate decline in volume, however, is expected for the full year and the company's optimism is shown by plans to spend around $14 million for improvements in 1949.

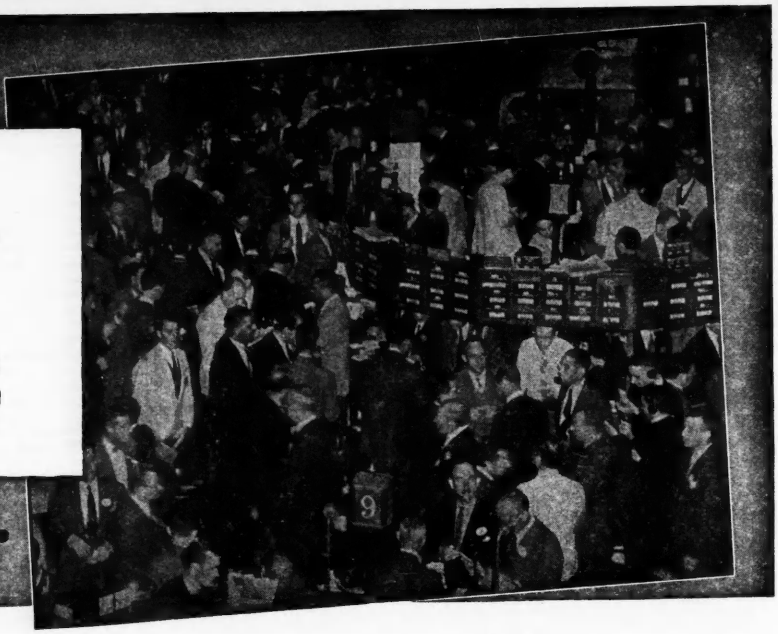
To finance this program and to retire bank debts, Continental Can has recently sold $20 million of debentures to insurance interests, pushing total funded debt up to approximately $52 million. Annual sales of more than $300 million easily win second place in the industry for the company, with output of fiber drums, containers and paper bottle caps affording significant diversification from main line can activities. Dividends in the current year should equal at least (*Please turn to page* 353)

Pertinent Statistical Data on Container Companies

	Net Sales ($ million)			Net Per Share							
	1947	1948	1st Quar. 1949	1947	1948	12 Mos. March 1949	Div. 1948	Div. Yield†	Price-Earnings Ratio‡	Recent Price	Range 1948-49
American Can	$338.2	$409.5	$86.6	$6.65 c	$8.09 c	......	$4.00	4.5%	11.0	$89	93¼-76¼
Anchor Hocking Glass	62.2	65.9	16.5	4.02	4.27	$5.02	2.00	6.3	7.5	32	38½-25¼
Continental Can	266.4	319.7	61.2	3.88	4.51	3.94	1.50	4.7	7.1	32	40 -29½
Crown Cork & Seal	81.4	98.6	19.9	3.00	3.28	.32 a	1.25	8.3	4.6	15	26⅛-14½
Hazel-Atlas Glass	59.7	60.7	13.5	1.83	1.41	1.78	1.20	5.7	15.0	21	26½-19½
National Can	21.7	22.0	2.8	.32	.19	......	.25	5.0	26.4	5	9¾- 4⅝
Owens-Illinois Glass	231.3	224.4	50.2	4.60	3.38	3.91	3.00	5.6	16.0	54	73¼-47¼
Thatcher Glass Mfg.	19.1	16.6	4.2	2.29	def.24	.06	.30	6.0	......	5	14⅛- 4¾

†—Based upon 1948 dividends.
‡—Based upon 1948 earnings.
a—March quarter only.
c—After reserve adjustments.

FOR PROFIT AND INCOME



Penetrations

The breaking of the 1947 lows was followed by a small rally, rather than an immediate further decline. This is one of those double-crosses of majority speculative opinion that the market comes through with often enough to put plenty of margin for error in all methods of technical analysis. In the old days, with considerable amounts of stocks held on narrow margins, the breaking of a well-defined support level inevitably resulted in forced liquidation, and was additionally exploited by the short-selling tactics of professionals. Now the margin debt is small, the 50% limit is conservative and the regulations bar bear-raiding. On the other hand, economic and psychological factors are no less potent than formerly. Demand for stocks cannot be strong until we are within sight of the end of the business deflation, and it does not take much selling to maintain a more or less effective pressure on the market, despite periodic relief in the form of technical rallies. The test to watch probably is not any particular level of "the averages" but how the market stands up under increasingly adverse business statistics and markedly lower earnings in many instances later in the year. Certainly a time for speculative bullishness is coming, but it can hardly be this summer. It might conceivably be by autumn or early winter, but nothing is sure.

Duration

The duration of this bear market to date depends on what starting point you take. If you figure it from the 1946 high, it is already 726 days old as this is written, comparing with a final total of 959 days for the 1939-1942 bear market, 1,027 days for the 1929-1932 bear market and 815 days for a bear market back in 1912-1914 — the three longest on record as far back as adequate data are available. In these terms, it is already very old. However, the rise from the 1947 low to the 1948 high, although over 90% of it occurred in three months prior to mid-June of last year, does rank as a separate bull market, no matter how much of a fluke it was. If you throw it out, the historical records become meaningless because in them all bull and bear markets are figured the same way, no matter how short or long they may have been. Thus, a few now remember that was a 7-month bull market, in saw-tooth fashion, between March and November of 1938; but so it was, and it was followed by a 147-day bear market. And there was a 5-month bull market between April and September of 1939. There is little doubt that market historians will have to record the present major trend as starting from mid-June of 1948, making it a little over a year old at the present time. Any way you choose to figure it, it could readily wind up within a relatively few more months, on the probable basis of an economic readjustment comparing more or less with that of 1937-1938 so far as the production decline is concerned, and comparing favorably with 1920-1921 as regards the degree of price decline. The 1937-1938 bear market ran for 390

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
American Airlines	4 mos. April 30	$ .06	def.$ .80
Bendix Aviation	6 mos. Mar. 31	2.43	1.97
Carolina Power & Light	12 mos. May 31	3.47	3.12
Caterpillar Tractor	5 mos. May 31	1.96	.27
Distillers Corp.-Seagrams	April 30 quar.	1.11	.90
Eversharp	Year Feb. 28	1.21	def.3.70
First National Stores	53 weeks April 2	7.21	6.88
Lake Shore Mines	Mar. 31 quar.	.23	.10
Peabody Coal	Year April 30	3.52	2.55
Singer Mfg.	Year Dec. 31	16.86*	15.23*

*—1948 and 1947 respectively.

days, that of 1919-1921 for 660 days.

How Low?

There are logical reasons for thinking that this bear market ought to halt somewhere within the 1944 price range, which for the Dow industrial average was 152.5-134.4. This column would tentatively figure it that way, assuming a production low not under 150 for the Reserve Board index and banking on a relatively satisfactory dividend outlook. But it does not make much sense to use any kind of a guessing approach in buying stocks. If you are speculating on the general trend, you have a much better chance of buying stocks within 10% or so of bottom, after bottom has been made, than you have in buying in anticipation of bottom. Bull markets rarely start with a rush. On an intrinsic-quality approach, some consumer-goods stocks are no doubt buys even at present levels.

Groups

On recent market weakness improved support was shown by such groups, long out of favor and more or less oversold, as farm equipment, metal fabricating, printing and publishing, retail trade and textiles. Such previous stalwarts as chemicals, operating utilities and natural gas stocks came under considerably increased pressure. Groups continuing to hold up relatively well include beer brewers, confectionery stocks, drugs, dairy products, finance companies, gold mining, tobacco products and utility holding companies.

Trucks vs. Cars

There has been less of an automobile boom than many imagine. Thus, estimated total 1946-1949 output of passenger cars has been only some 10% over that of the prewar years 1936-1939. Coming after cessation of civilian production during the war years, the gain is small; and far less than the gain in real consumer income. It leaves millions of over-age cars still on the roads. Therefore, the readjustment in this industry, starting within a few months, could be fast. On the basis of moderate price reductions, several years of reasonably satisfactory demand should follow the present general business recession. On the other hand, the post-war output of trucks has been roughly 60% over 1936-1939 in unit volume, suggesting that needs have been largely served for a protracted period to come. Truck stocks may be adequately deflated, some now selling under net quick assets per share, but there is nothing in the outlook for earnings and dividends to support higher prices. This could well be a sub-average group even in the next bull market.

Deflation

From February through April, total profits of department stores fell 48% on a year-to-year dip of 3% in sales, according to the report of the Controllers' Congress of the National Retail Dry Goods Association. It covers all stores doing a volume of more than $1,000,000 a year. The average profit in this period was 2.7% of sales, against 5.2% for the like period of 1948. About 92% of the 116 reporting stores had lower profits, and nearly a quarter of them had actual net operating losses. It seems probable, in this column's view, that department stores, by and large, have already gone about as far as they are likely to go in paring profit margins to hold up unit volumes. If so, the story from here on will depend on employment and consumer income, rather than markdowns; for if the limit of the latter has not been reached, it is surely near. Meanwhile, the stocks are currently acting somewhat better than the general market.

Dairy Products

Earnings of the leading dairy products companies this year are likely to hold close to the excellent 1948 results, with dividends well covered and secure. Operating margins of the last couple of years have been below normal, since selling prices were advanced less than costs increased; but the effect was offset, so far as net income is concerned, by the very large dollar gross. Under the deflationary influences now at work, costs of materials will decline faster than selling prices, making for better margins. This will tend to maintain earnings, despite some reduction in total dollar sales due to lower prices, which are already spurring unit volume. The leading companies, in order of size, are National Dairy Products, Borden and Beatrice Foods. All offer current yields in the vicinity of 6% or more. Each has held above its previous post-war low in this year's general market decline. Beatrice and National Dairy have done so by wide margins, Borden by a small one.

Gas

When investors pare down positions, many bow to the human temptation to sell stocks on which they have profits, while holding less satisfactory stocks on which they are more or less "under water." This probably explains the recent softness in natural gas stocks, as it also does that of operating utility stocks. Both groups had for many months been working upward against the general market trend. Long-term growth prospects for the natural gas industry remain good, and these companies will also make a decidedly superior showing on 1949 results whether or not earnings in some cases are modestly under 1948 figures. In the first quarter of this year, gross

(*Please turn to page* 353)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Allied Stores	April 30 quar.	$1.08	$1.39
Consolidated Textile	May 28 quar.	.29	1.25
Davega Stores	Year Mar. 31	2.90	4.48
Dresser Industries	April 30 quar.	.72	1.56
Magnavox	Year Feb. 28	2.01	3.06
Remington Rand	Year Mar. 31	2.14	3.26
Spencer Kellogg & Sons	12 weeks May 7	.63	1.02
Stevens, J. P.	April 30 quar.	1.49	2.12
Universal Pictures	26 weeks April 30	def.63	.12
Warner Bros. Pictures	Feb. 26 quar.	.35	.46

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Standard Oil Company of Ohio

"I have subscribed to your Magazine for a good many years and rarely have availed myself of the privilege of consulting your Personal Service Department. I would appreciate recent data on Standard Oil Company of Ohio."

A.L., Green Bay, Wisconsin

Consolidated net income of Standard Oil Company (Ohio) for the first quarter of 1949 was $3,-912,160 as compared with $6,052,-604 for the same period of 1948. These earnings were equivalent respectively to $1.03 per share of common stock in 1949 and $1.66 per share for 1948, after deducting preferred stock dividends.

The lower net income for the 1949 quarter reflects higher costs, and the following changes from the peak demand and price situation which existed during the first quarter of 1948: (1) a 2½% decrease in the physical volume of all finished products sold, although gasoline sales showed a gain of 8%; (2) lower prices received for light and heavy burning oils.

Reflecting increased sales of gasoline, crude oil, gas and natural gas liquids, net sales for the March quarter of 1949 were $62,-078,976, slightly in excess of the $61,281,185 of sales for the corresponding period of 1948. Total costs and expenses of conducting the business (including income taxes) were about 5% higher for the 1949 quarter than for the like period of 1948. Such increase reflected higher operating charges in 1949 as compared with 1948, for payroll, depreciation of facilities and depletion of oil producing properties, and because of the higher prices paid for miscellaneous materials and services including increased transportation costs.

The company's net crude oil production increased 10% to 2,-917,800 barrels in the initial quarter of 1949 from 2,638,000 barrels during the same period of 1948. It averaged 32,420 barrels a day in 1949 as compared with 28,989 barrels a year ago, despite reductions during February and March in state-enforced allowable production per well, particularly in Michigan and Oklahoma.

Company's refineries processed about 5% less crude oil in the first quarter of 1949 than for the like period of 1948. Such decrease resulted principally from differences in the scheduled shutdowns for inspection and maintenance of equipment. It is anticipated that crude runs to stills will average about 97,000 barrels per day for the full year of 1949 as compared with about 93,000 barrels per day in 1947, the previous high year.

Sales, etc. for the full year of 1948 amounted to $245,157,216 and net income to $23,783,197, equal to $6.39 per share. Dividends in 1948 were $1.62½ per share in cash and 2% in stock. Current quarterly rate is 50 cents per share.

National Dairy Products Corp.

"Please advise on inventory situation and profit prospects of National Dairy Products Corporation for 1949."

S.B., Los Alomos, New Mexico

Unit sales volume of National Dairy Products Corporation for the first half of this year has been running ahead of the like 1948 period, although dollar volume, due to price reductions, probably will be down slightly for this period. Profits are expected to show no important change from the $2.12 a common share reported for the first six months of last year.

Fluid milk sales, which made up 30% of National Dairy's 1948 sales volume, are up, but such gain is of little importance to earnings, as the company's profit margin on fluid milk is only a fraction of a cent a quart. More important to profits has been a further substantial gain in cheese sales. Margins on cheese, which made up 22% of 1948 sales, are relatively favorable.

Lowered milk costs this year have permitted the company to reduce its prices, stimulating sales. In the case of ice cream, sales have lagged this year, partly due to weather conditions and partly due to the fact that, while National Dairy has lowered its prices on ice cream, there has not been a general reduction in prices to the consumer. Favorable weather conditions for the balance of the year could help bolster ice cream sales. Butter sales are up, aided by lower prices, while company's margarine sales have shown a corresponding decline.

Foreign government buying has been a factor in this year's demand for some milk products, and the United States Government has also been a buyer, particularly of powdered milk. In view of increased milk supply available for canned and powdered milk lines this year, the Government demand has cut down inventories, and tie-up of capital, in such lines. Due to its relatively rapid inventory turn-over, the threat of inventory loss is not as serious, in period of declining prices, as in some industries. However, to protect against this contingency, the company at the start of this year

had a special reserve of some $15 million.

Cluett Peabody Company

"Please advise when patent expiration of Cluett Peabody 'Sanforizing' process takes effect and if the company can expect any revenues from this process in the future."

F.D., Schenectady, New York

Cluett Peabody & Company's patent rights on their process to reduce fabric shrinkage expired on May 31, 1949, but the company still holds patent rights on machinery used in the process until August 21, 1951, and on certain improvements also until 1951.

Company has sent out new contracts to mills and finishing plants who wish to label cotton goods "Sanforized," reducing the royalty rate from 2.5 mills to 1.5 mills a yard. Contracts cover a three-year period with an automatic one-year renewal unless cancelled.

In 1948, about two billion yards of cotton fabrics were sanforized and the company realized over $5,500,000 from their Sanforized Division and from royalties on the process. Cluett Peabody is an important manufacturer of men's shirts under the "Arrow" trademark and other items such as collars, ties, underwear and handkerchiefs. Sales for the year ended December 31, 1948, amounted to $83,973,839 and net income to $4,625,190, equal to $5.59 per share on 710,906 shares of outstanding common stock. In 1947, the net income was $5,343,551, equivalent to $7.20 on 696,404 shares of common stock. Sales in 1948 registered an increase of 36% over the preceding year and in the first quarter of 1949 totalled $21,035,655, compared with $18,983,501 in first quarter of 1948. Dividends in 1948 totalled $3.00 per share and $1.00 was paid in the first half of the current year.

Fruehauf Trailer Company

"I hear that earnings of Fruehauf Trailer Company declined in the first quarter of 1949. Will you please explain the reason for this decline?"

E.N., Syracuse, New York

Net sales of Fruehauf Trailer Company for the first three months of 1949 totalled $19,119,612, as compared with $20,206,051 for the first quarter of last year. Net earnings amounted to $808,018, equal to 57 cents per share on 1,215,956 shares outstanding, as compared with $2,000,517 (including non-recurring income of $410,119) or $1.54 per share for the comparable period last year.

There were a number of unusual conditions which affected sales and earnings of the company in the first three months. In February, the main plant was the scene of a jurisdictional dispute requiring two elections to determine the union to represent employees. Since settlement of this dispute, efficiency at this plant has improved considerably, but while it was going on, unabsorbed factory burden and low efficiency cut profits substantially.

In addition, a sizeable loss in production occurred during the first quarter at the company's second largest plant as a result of model changes. Meanwhile, another factor in retarding sales in this period was the severe winter that repeatedly crippled large areas in the West, tying up all forms of transportation with some of the heaviest snowfalls in history.

The company believes that demand for truck-trailers in 1949 will continue at approximately the same level as last year.

City Stores Company

"Please furnish names of stores operated by City Stores Company; recent sales volume and profits."

E.B., Auburn, New York

City Stores Company and subsidiaries for the quarter ended April 30, 1949, showed net sales of $40,259,340. This is 6.21% ahead of the $37,904,419 sales in the comparable period of the previous fiscal year. Sales for the twelve months ended April 30, 1949, were $170,459,906, the largest volume for any twelve months' period in the company's history, and an increase of 8.54% over the $157,501,594 sales reported for the twelve months ended April 30, 1948.

Net earnings for the three months ended April 30, 1949, were $1,232,948, equal to 73 cents per share on the common and class A stocks outstanding, compared with $1,106,623 or 66 cents per share for the corresponding period of last year. The net earnings for the latest period include profit of $435,475 from the sale of a warehouse. Net earnings for the twelve months ended April 30, 1949, were $5,524,731, equal to $3.27 a share against $4,509,810 or $2.67 per share for the preceding twelve months. The above figures include operations of Wise, Smith & Company, Inc. from August 18, 1948, and Swern & Company (subsidiary of Lit Brothers) from January 1, 1949.

City Stores Company operates the following twenty-two retail establishments: Lit Brothers, Philadelphia; Swern & Company, Trenton, New Jersey; R. H. White Corporation, Boston; Maison Blanche Company, New Orleans; B. Lowenstein & Brothers, Inc., Memphis; Loveman, Joseph & Loeb, Birmingham; Kaufman Straus Company, Louisville; Richard Store Company, Miami; Wise, Smith & Company, Hartford, Connecticut; and Oppenheim Collins Company Inc. which conducts specialty stores in New York City, Brooklyn, Philadelphia and Buffalo and branch stores in several suburban areas of New York City.

The quarterly dividend rate is 30 cents per share.

American Seating Co.

"Please advise on net income of American Seating Co., prospects for the current year and dividends."

M. B., Clarkdale, Miss.

American Seating Co. is the leading manufacturer of seats for schools, theatres, churches, buses, etc. In addition, it distributes school supplies manufactured by other companies and this normally accounts for a sizable part of the company's income. School and other public building requirements are large in view of the increased population of the country and therefore American Seating Co. can look forward to substantial business for the balance of this year and the period beyond.

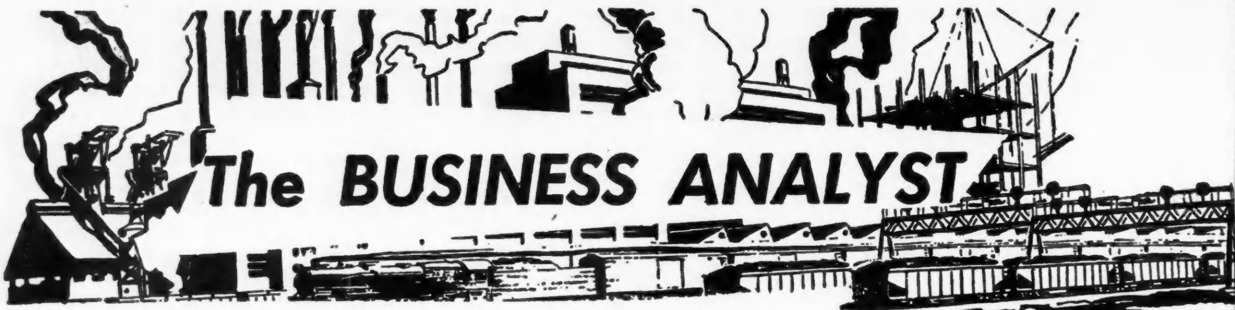
Net sales for the year ended December 31, 1948, amounted to $22,529,375 and net income to $1,396,861, equal to $6.32 per share. This compares with 1947 results as follows:

Net sales	$16,037,520
Net income	557,333
	equal to $2.52 per share.

Sales in 1948 increased 40% over the preceding year and 1947 showed an increase of 52% over 1946.

For the first quarter of 1949, net sales rose to $5,552,010 and net profit to $359,784, equal to $1.63 per share, compared with 1948 first quarter sales of $4,301,795, net profit of $265,448, equal to $1.20 per share.

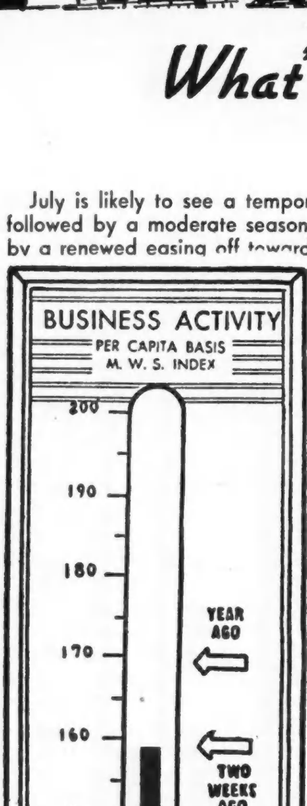
Dividends have been conservative in relation to earnings. Disbursements in 1948 amounted to $2.00 per share and $1.00 per share in cash plus 5% in stock has been paid thus far in the current year.



What's Ahead for Business?

By E. K. A.

July is likely to see a temporary low in production, to be followed by a moderate seasonal rebound and subsequently by a renewed easing off towards the final low for the current cycle phase, probably some time during the first quarter of next year. Industrial production in May, in terms of the Federal Reserve Board Index, is estimated at around 174% of the 1935-39 average, and June and July will show further declines. The drop in the latter month may be exaggerated by plant shutdowns for vacation periods, a postwar feature which last year was mainly responsible for a temporary six-point drop in the index in the same month.



Just what the July low will be is difficult to say in advance; but whatever it is, one can rationally anticipate thereafter a moderate improvement possibly lasting through September-October, aided by the prospect of a bulge in soft goods operations but held within narrow bounds by a further decline in heavy goods industries. Some hold that the former influence may not be marked enough to prevent a continued decline through the year. Much will depend on the force of the downswing in capital goods industries and the timing of the expected slackening in the auto industry.

Currently, business activity is importantly supported by peak operations in automobiles and a heavy construction volume which virtually matches last year's record despite its slow start. In fall, construction will slacken seasonally. Should additionally, auto production be cut back during the third rather than the fourth quarter, the expected temporary rebound in overall activity may well be washed out. However, the automobile market to-date remains strong and while it may ease somewhat in fall, output may well continue at relatively high levels for some time. The industry still anticipates a six-million car year, of which three million units (cars and trucks) have already been produced. In building, last year's peak occurred in May, but this year's will come later since building permits were rising in May. These two strong supporting factors thus may continue in operation well into the third quarter, and therein is found the basis for the anticipated post-July rebound or temporary stabilization of overall production activity.

In times like the present, of course, nothing can be taken for granted. We do not know to what extent soft goods can take up the slack created by receding capital goods activity. Nor do we know to what extent, possibly in early fall, general buying to replenish inventories will stimulate business even though auto output may slacken. We do know that inventory liquidation is now proceeding at a fast pace, to the tune of $1.2 billion in April alone and probably at a faster rate since then. The faster it proceeds, the nearer will be the time for reordering. This need is evident today in the well deflated textile and apparel industries.

Naturally, production and the general trend of business can be influenced by strikes which may occur in the months ahead. If prolonged, all bets will be off, for a series of serious strikes could push the production index down sharply. It would increase unemployment and reduce personal incomes, which in turn would adversely affect retail sales and make for renewed buying caution on the part of business. Reordering to replenish inventories would be postponed, no doubt, wherever possible. All of which would reemphasize the downtrend—without any intermittent bulge.

Retail Trade

Meanwhile retail trade is holding up surprisingly well, everything considered. To-date the decline of dollar volume below last year's has been limited to 4% and since much of it is due to lower prices, physical volume has been maintained or even risen. Profit margins of course are smaller which mainly accounts for lower earnings. Department store economists predict that the downtrend will continue, with minor interruptions, for the balance of the year and that final volume will be about 7% under 1948 sales. This would be in line with the drop that occurred between 1920-21 and 1937-38. The main problem is still to find a reasonable balance in the price structure following postwar dislocations. On the whole, however, adjustment henceforth should be somewhat easier as lower raw materials prices begin to percolate down to retail levels in greater degree.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—During the fortnight ended June 17, Common Stocks sank to another new low since 1945, with our Combined Average of 320 active issues showing a decline of 10.9% since the first of the year. Of our 46 group indexes, 27 made new lows for various periods (as shown in the tabulation on the second page following), and none made a new high. Fourteen of the group indexes, however, mostly representing consumer goods lines, are still higher than at the start of the year. Issues of investment rating also succumbed to the wave of pessimistic liquidation; with the noteworthy exception of bank-eligible U. S. Government bonds, which rose to the highest prices since 1947 on persistent buying by commercial banks to offset the continuing decline in bank loans. Yet earning assets of weekly reporting member banks were down $370 million in the fortnight ended June 8, the first fortnightly decline in two months, despite purchases of U. S. Government securities to the amount of $197 million. Bank stocks were weaker than the market, sinking to the lowest level since February, 1948. Medium grade preferred stocks averaged the lowest since 1943; high grade rail bonds lowest in six weeks; and foreign government dollar bonds lowest since April 9. Reports of a rich South African gold strike turns out to have been a hoax, which the police are investigating. Stocks slump in Paris and London, with traders blaming New York; yet the decline in both markets has been nearly twice as severe as here. Russian propagandists who have been wishing for a depression in the U. S., have indoctrinated Europe with the notion that all their business and financial troubles originate here; but historical records show that practically every world-wide depression of the past hundred years has started in Europe—usually in England. Due in no small measure to our generous postwar financial help to western Europe, the Treasury's cash balance slumped in the past fortnight to the lowest level in eight years, necessitating a temporary overdraft. This signals the beginning of the deficit financing, which could run as high as $6 billion in fiscal 1950. With the aid of $25 million from the U. S. stabilization fund, Mexico has just devalued the peso to 11½ cents, in terms of the U. S. dollar. A year ago its exchange value was 20½ cents. A week ago it was 12½ cents.

TRADE—In the first quarter of their accounting year beginning February 1, 1949, 116 large department stores throughout the country suffered a 52% slump in net profits compared with the like period last year, despite a decline of only 3% in sales. Favorable balance of foreign trade picked up here in April, and in England there was some mild improvement during May.

INDUSTRY—Business activity, now 4.3% below last year, will probably go lower; since new orders in April declined at an accelerated pace. Automobile production last week, however, was the largest since 1937, and personal incomes in April were still above last year. Cash dividend payments in April were only 3% above last year, compared with an 8% increase for three months. Unemployment at new post-war high.

COMMODITIES—Grains rally sharply on announcement that the Government will extend non-recourse loans to crops piled on the ground; but prices for meat animals, hides, copper and zinc were weak in the fortnight ended June 18. Our index of raw material spot prices sank to the lowest level in over two years.

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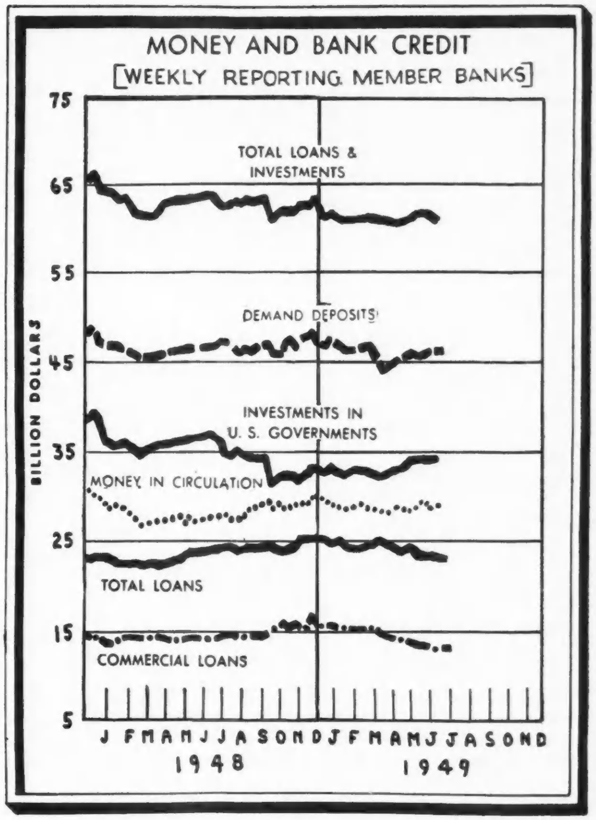


Though overall business is still shrinking, among individual companies and industries the **Recession** is by no means uniform either in velocity or direction. At one extreme stands the automobile industry where production last week was the largest since 1937. At the opposite extreme are textiles which, after the worst slump in years, show feeble signs of beginning to pick up again; though even here at least one producer is still operating on a three-shift, seven-days schedule. In between are a few industries, such as the air lines, which have come through their post-war adjustments and expect to do more business this year than in 1948.

* * *

But though bright spots are still discernible in the business picture, the general tenor of industrial news since our last issue affords little encouragement for hoping that the process of post-war adjustment may be nearly over. A pick-up in **New Orders** for durable goods must precede any permanent improvement in the general business outlook. April, the latest month for which data are available, showed an acceleration in the rate of decline.

* * *

Due in part to lower prices, **Department Store Sales** sagged during the fortnight ended June 11 to a level 6½% below last year, compared with a cumulative decline of only 4% for the year to date.

* * *

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	May	1.18	1.28	1.04	1.55
Cumulative from mid-1940	May	382.0	380.8	368.1	13.8
FEDERAL GROSS DEBT—$b	June 15	251.7	251.6	251.4	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	June 8	46.3	46.4	47.0	26.1
Currency in Circulation	June 15	27.4	27.5	27.8	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	June 8	8.56	8.43	8.60	4.26
93 Other Centers—$b	June 8	12.11	12.13	12.19	7.60
PERSONAL INCOMES—$b (cd3)	Apr.	216	217	211	102
Salaries and Wages	Apr.	138	138	131	66
Proprietors' Incomes	Apr.	48	49	51	23
Interest and Dividends	Apr.	18	18	17	10
Transfer Payments	Apr.	12	12	12	3
(INCOME FROM AGRICULTURE)	Apr.	20	21	23	10
CIVILIAN EMPLOYMENT—m (cb)	May	58.7	57.8	58.7	51.8
Agricultural Employment (cb)	May	9.0	7.8	7.9	8.8
Employees, Manufacturing (lb)	Apr.	15.3	15.3	16.0	13.8
Employees, Government (lb)	Apr.	5.8	5.8	5.6	4.6
UNEMPLOYMENT—m (cb)	May	3.3	3.0	1.8	3.8
FACTORY EMPLOYMENT (1b4)	Mar.	151	153	160	147
Durable Goods	Mar.	175	178	188	175
Non-Durable Goods	Mar.	132	133	138	123
FACTORY PAYROLLS (1b4)	Mar.	350	358	358	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Apr.	38.3	39.0	40.1	40.3
Hourly Wage (cents)	Apr.	137.4	137.5	129.2	78.1
Weekly Wage ($)	Apr.	52.62	53.63	51.79	32.79
PRICES—Wholesale (1b2)	June 14	154.8	156.1	165.5	92.5
Retail (cdlb)	Apr.	189.2	189.4	190.8	116.2
COST OF LIVING (1b3)	Apr.	169.7	169.5	169.3	110.2
Food	Apr.	202.8	201.6	207.9	113.1
Clothing	Apr.	192.5	193.9	196.4	113.8
Rent	Apr.	120.3	120.1	116.3	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Apr.	11.11	10.53	10.71	4.72
Durable Goods	Apr.	3.33	3.14	3.11	1.14
Non-Durable Goods	Apr.	7.78	7.39	7.60	3.58
Dep't Store Sales (mrb)	Apr.	0.84	0.75	0.81	0.49
Retail Sales Credit, End Mo. (rb2)	Apr.	7.76	7.51	6.68	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Apr.	196	215	252	181
Durable Goods	Apr.	209	243	292	221
Non-Durable Goods	Apr.	187	199	228	157
Shipments (cd2)—Total	Apr.	315	328	324	187
Durable Goods	Apr.	368	383	353	227
Non-Durable Goods	Apr.	284	296	307	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Apr.	53.5	54.7	51.1	28.6
Manufacturers'	Apr.	31.4	31.8	29.2	16.4
Wholesalers'	Apr.	8.1	8.4	7.8	4.1
Retailers'	Apr.	14.0	14.5	14.1	8.1
Dept. Store Stocks (mrb)	Apr.	2.2	2.2	2.4	1.4
BUSINESS ACTIVITY—1—pc	June 11	158.3	158.8	168.5	141.8
(M. W. S.)—I—np	June 11	182.0	182.5	190.2	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 345)

Business Activity, after two weeks of feeble recovery, again receded fractionally during the fortnight ended June 11 to a level 4.3% below last year at this time. Among the components of our business index, Electric Power Output still holds above last year.

* * *

Steel ingot production, on an actual tonnage basis, has fallen to 7% below last year; but the operating rate has dropped to around 84% of capacity, the lowest weekly ratio in 9 years, barring strike interludes. The decline might have been even steeper if steel buyers were not hesitant to run the risk of being caught short in the event of a prolonged steel strike this summer.

* * *

For the month of May, this publication's index of **Business Activity** declined to 183% of the 1935-9 average—1.1 point below April and 3.3% under May of 1948. On a per capita basis, the index registered 159.5% of the 1935-9 average for May, compared with 160.6 in April and 168.4 for May of last year.

* * *

There is nothing in the general business picture to suggest a panicky depression; but the business indexes are going to be depressed artificially by John L. Lewis during the next four weeks, and perhaps longer if **Strikes** are called. His minions were called out in a "stabilizing" gesture for the week ended June 18. Then their 10-days' vacation starts on June 24 and, as July 4 is a national holiday, normal production can not be expected prior to the week ended July 16, at the earliest. Subnormal coal production will of course depress carloadings and the earnings of coal carriers, and perhaps slow operations at a few manufacturing plants which might be caught with inadequate coal reserves.

* * *

The Census Bureau reports that **Unemployment** rose contraseasonally in May to a new post-war high of 3,289,000—273,000 above April and 1,528,000 ahead of May, 1948. About two-thirds of the April to May increase was due to the circumstance that high school and college students, hearing that openings will be fewer this summer, had put in their applications a month earlier than usual. According to Census sampling definitions, that puts them

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Apr.	179	184	188	174
Mining	Apr.	146	136	147	133
Durable Goods Mfr.	Apr.	213	223	217	220
Non-Durable Goods Mfr.	Apr.	161	168	177	151
CARLOADINGS—t—Total	June 11	808	699	907	833
Manufactures & Miscellaneous	June 11	339	302	388	379
Mdse. L. C. L.	June 11	92	81	105	156
Grain	June 11	49	41	52	43
ELEC. POWER Output (Kw.H.)m	June 11	5,300	5,018	5,132	3,267
SOFT COAL, Prod. (st) m	June 11	13.0	10.0	13.3	10.8
Cumulative from Jan. 1	June 11	241	228	258	446
Stocks, End Mo.	Apr.	65.2	60.5	34.4	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 11	4.9	4.9	5.5	4.1
Gasoline Stocks	June 11	117	119	106	86
Fuel Oil Stocks	June 11	66	64	57	94
Heating Oil Stocks	June 11	60	59	42	55
LUMBER, Prod. (bd. ft.) m	June 11	708	613	632	632
Stocks, End Mo. (bd. ft.) b	Apr.	7.5	7.3	5.5	12.6
STEEL INGOT PROD. (st.) m	May	7.68	7.78	7.58	6.96
Cumulative from Jan. 1	May	39.5	31.8	35.8	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	June 16	151	226	127	94
Cumulative from Jan. 1	June 16	3,564	3,413	3,046	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	June 11	153	184	171	165
Wood Pulp Stocks, End Mo. (st)t	Apr.	152	140	97	98
Cigarettes, Domestic Sales—b	Apr.	27.3	31.4	31.6	17.1
Natural Rubber Consumption (lt)t	Apr.	47.6	53.1	50.6	54.3
Do., Synthetic	Apr.	36.6	38.7	34.6	0.5
Motor Vehicles, Factory Sales—t	Apr.	543	518	438	352

PRESENT POSITION AND OUTLOOK

in the unemployed category, though still attending classes. For this reason the May to June increase in unemployment was probably somewhat less than seasonal in amount.

* * *

Of more serious import was the April to May drop of 303,000 in the number of people actually **At Work** in non-farm pursuits, bringing the total down to 48,036,000 —1,003,000 below last year. As average weekly working hours were shortened to 41.66, from 41.9 a year earlier, the number of man-hours per week declined to approximately 2 billion, which was 2.65% below last year.

* * *

April employment at **Woolen** and worsted mills was 35% below last year, and the smallest in ten years; but the worst is probaby over in this industry.

* * *

It is at least of some comfort to note that, despite receding employment, **Personal Incomes** in April, before taxes, were still about 2½% above last year, on an average. Excluding farming, the increase was 4.4%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

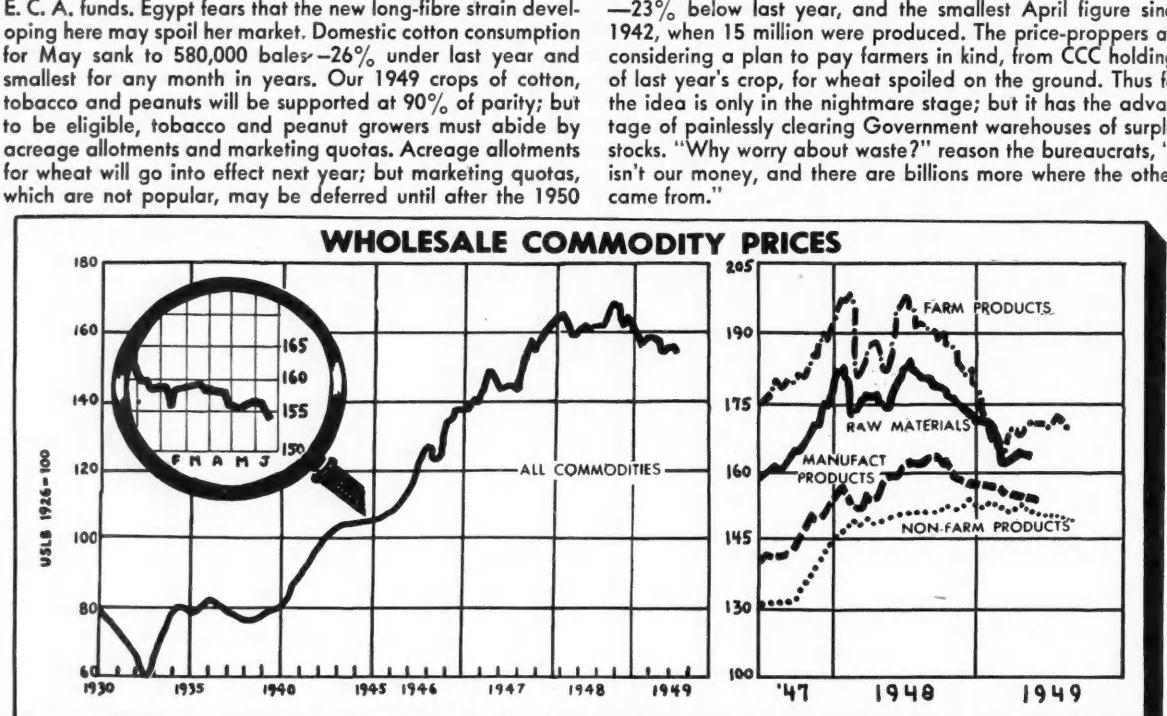
No. of Issues (1925 Close—100)	1949 Indexes High	Low	June 10	June 17
320 COMBINED AVERAGE	127.6	108.0	108.5	108.0d
4 Agricultural Implements	200.0	162.1	162.1b	162.7
10 Aircraft (1927 Cl.—100)	178.3	138.2	143.2	138.2a
6 Air Lines (1934 Cl.—100)	435.6	366.1	366.8	373.9
6 Amusement	92.0	75.8	81.6	80.6
12 Automobile Accessories	188.9	145.2	148.9	145.2e
12 Automobiles	29.7	21.3	21.3e	21.4
3 Baking (1926 Cl.—100)	19.5	18.1	18.7	18.1a
3 Business Machines	237.4	209.0	209.0e	211.1
2 Bus Lines (1926 Cl.—100)	133.5	118.3	129.9	125.2
5 Chemicals	235.2	212.7	212.7d	213.2
3 Coal Mining	19.2	11.2	11.7	11.2e
4 Communication	39.4	31.8	32.2	31.8g
13 Construction	58.5	47.6	47.8	47.6d
7 Containers	284.1	240.7	248.6	240.7e
9 Copper & Brass	95.8	67.4	68.8	67.4e
2 Dairy Products	59.1	53.3	57.2	56.8
5 Department Stores	54.9	49.2	49.5	49.3
6 Drugs & Toilet Articles	154.3	141.6	143.3	148.1
2 Finance Companies	278.4	246.1	261.5	262.0
7 Food Brands	154.4	146.0	146.4	146.0
2 Food Stores	75.0	58.5	71.8	71.6
3 Furniture	70.7	54.7	54.9	54.7f
3 Gold Mining	733.9	566.3	662.6	645.6

(Nov. 14, 1936, Cl.—100)	High	Low	June 10	June 17
100 HIGH PRICED STOCKS	80.68	70.82	70.88	70.82e
100 LOW PRICED STOCKS	146.36	119.71	120.74	119.71d
6 Investment Trusts	60.3	53.9	55.7	55.1
3 Liquor (1927 Cl.—100)	688.2	602.9	602.9b	613.7
10 Machinery	136.9	115.9	116.8	115.9e
3 Mail Order	104.9	87.1	87.2	87.1b
3 Meat Packing	79.9	63.5	63.5e	63.6
12 Metals, Miscellaneous	158.1	122.0	122.0e	124.3
4 Paper	37.3	27.9	28.5	27.9d
29 Petroleum	245.7	207.1	207.3	207.1a
21 Public Utilities	116.9	102.4	110.8	105.1
6 Radio (1927 Cl.—100)	26.7	14.2	14.2f	14.3
9 Railroad Equipment	50.0	36.5	36.5f	36.7
24 Railroads	23.4	17.5	17.6	17.5b
3 Realty	23.9	21.4	21.4a	21.8
3 Shipbuilding	144.4	120.0	124.9	120.0a
3 Soft Drinks	367.4	298.2	324.4	322.9
14 Steel & Iron	106.2	77.0	78.0	77.0e
3 Sugar	48.5	39.8	39.8f	39.9
2 Sulphur	273.5	233.8	252.2	247.4
5 Textiles	132.5	100.9	101.9	106.8
3 Tires & Rubber	31.6	26.6	26.6e	26.8
6 Tobacco	73.5	67.1	69.8	69.7
2 Variety Stores	330.5	308.3	329.2	321.2
17 Unclassified (1948 Cl.—100)	105.3	93.2	95.0	93.2a

New LOW since: a—1948; b—1947; d—1945; e—1944; f—1943; g—1942.

Trend of Commodities

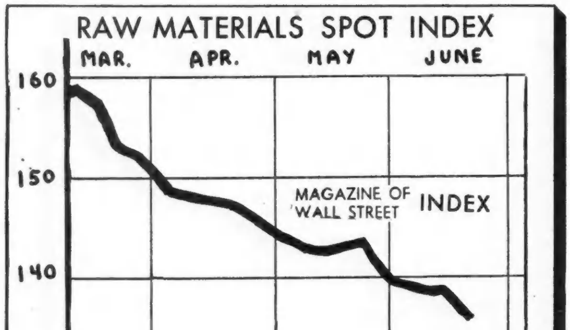
Grains rose briskly in the fortnight ended June 20 upon announcement that the Government would extend non-recourse loans at 75% of the support price on wheat piled in the fields or stored in temporary shelters. Also stimulating were Administration efforts to push high-support-price legislation through Congress. Cotton was lifted by foreign buying financed by E. C. A. funds. Egypt fears that the new long-fibre strain developing here may spoil her market. Domestic cotton consumption for May sank to 580,000 bales—26% under last year and smallest for any month in years. Our 1949 crops of cotton, tobacco and peanuts will be supported at 90% of parity; but to be eligible, tobacco and peanut growers must abide by acreage allotments and marketing quotas. Acreage allotments for wheat will go into effect next year; but marketing quotas, which are not popular, may be deferred until after the 1950 elecions. Pork, lamb, copper and zinc prices declined since our last issue. The M. W. S. index of raw material spot prices sank to the lowest level in over two years. The Agriculture Department predicts a 1949 wheat crop of 1,336,976,000 bushels, only 30,000,000 million short of the 1947 all-time high; yet wheat flour production in April fell to around 17 million sacks —23% below last year, and the smallest April figure since 1942, when 15 million were produced. The price-proppers are considering a plan to pay farmers in kind, from CCC holdings of last year's crop, for wheat spoiled on the ground. Thus far the idea is only in the nightmare stage; but it has the advantage of painlessly clearing Government warehouses of surplus stocks. "Why worry about waste?" reason the bureaucrats, "it isn't our money, and there are billions more where the others came from."



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

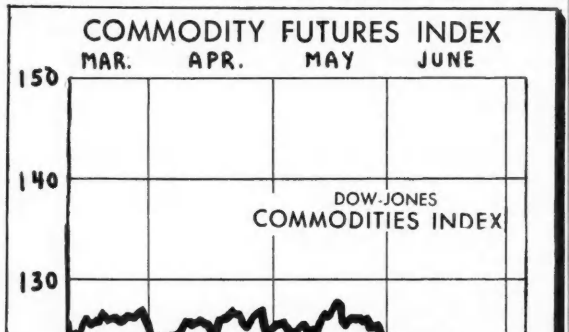
	Date June 20	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	231.0	235.0	244.6	262.5	296.7	330.6	156.9
11 Imported Commodities	236.2	237.3	251.4	250.8	269.5	286.1	157.3
17 Domestic Commodities	227.7	233.6	240.2	270.4	315.7	363.0	156.6
7 Domestic Agriculture	294.4	294.4	291.7	290.6	321.5	399.0	163.9
12 Foodstuffs	281.1	280.1	282.9	283.5	329.8	423.2	169.2
16 Raw Industrials	209.7	216.6	230.0	256.8	278.8	277.1	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	135.9	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	122.45	139.83	117.14	93.90	55.45	46.59	45.03	52.03

Special Study of Low-Priced Stocks

(*Continued from page* 331)

and has a snug capitalization with no funded debt or preferred stock. But heavy competition that made for a drab earnings record in prewar has again become a factor. With no near improvement in truck demand in sight, the current year is likely to continue to be unfavorable. In appraising these fundamentals, it is wise to recall that lean earnings in the 1937-43 period held the price range for the shares to a range of high—6¼, low—2, or an average close to the present quotation of 4. The shares have only minor appeal.

Though Firth Carpet Company earned an all-time record of $3.91 per share in 1948, this probably was a peak for some time to come. Reflecting the prospect of lower sales and earnings, the price of the stock has reached a low of around 11, bottom since their listing in 1946. In that year they sold as high as 28⅞ and above 20 in the two following years. Allowing for somewhat lower sales as 1949 progresses, due to a probable lessening in demand for floor coverings and moderately lower prices, it is possible that the present price has adequately discounted the prospect of reduced earnings. The company operated at full capacity during the first four months of 1949, with some divisions on a 7-day work week. Net per share in the first quarter was 77 cents, with the best season yet to come. The conservative management of this 60 year old concern, however, reduced the June dividend to 35 cents from the former level of 40 cents, expressing a desire to conserve cash until economic uncertainties became clarified. Moderate as this reduction was, it probably did not help the shares pricewise.

Firth Carpet Company has a strong trade position that should sustain volume indefinitely well above prewar, especially considering the prospect of prolonged construction activities in coming years. Except in acutely depressed years, Firth Carpet has always operated profitably, though with average earnings a good deal lower than in postwar. Assuming that dividends in the next few years were cut in half, though this may not happen, the shares at current price would still yield around 7%. At 11, accordingly, they seem moderately priced and hold considerable speculative appeal.

Since many shares of good quality have declined in sympathy with the general stock market, it is hardly surprising to note a recent quotation around 19 for a sound issue like Sylvania Electric Products, Inc. While this is in sharp contrast to a 1946 high of 41 and about 25% below the 1948 peak of 26, the shares sold as low as 17⅛ last year and not far from the present level in each of the previous two years at their lows. This prominent manufacturer of incandescent light bulbs, television tubes, radios and fluorescent equipment has established an outstanding record for growth and stable earnings over a long period of years. An unbroken dividend record since 1929 stimulates confidence in its operations. The company's prospects for many months past have been enhanced by dynamic progress in the television field, with a production of 500,000 video tubes last year and further expansion indicated in 1949. By fall, the company plans to arrive at large scale production of television sets.

Net earnings in the first quarter were reported as 74 cents per share, with little to suggest that a downtrend may have to be expected. Last August Sylvania Electric made a public offering of 200,000 shares of new common through underwriters at $21.50 per share, thus the price since then has experienced only a moderate decline. Altogether, a price-earnings ratio of 6.7 and a yield of 7.4%, the latter with rather strong indications of stability, make the current price of 19 appear rather inviting, considering the quality of the issue. The volatile price characteristics of the shares attach additional speculative interest.

Virginia-Carolina Chemical

Virginia-Carolina Chemical Corporation shares have been a speculative football for decades past, with no dividends paid and earnings so spotty that as of April 1, 1949, arrears on the 6% participating preferred amounted to $77.50 per share. Record farm income in the last two years, though, has enabled the company to expand volume to a point where net earnings for the first time have really been substantial, with $4.90 per share reported in 1947 and $6.29 in 1948. Net of $3.69 per share for nine months ended March 31, 1949 compare with $4.57 in the same 1948 period, indicating that the fiscal year to end June 30 may be less prosperous than a year earlier, though satisfactory by ordinary standards.

Speculative interest in the common shares has been heightened through approval by a majority of stockholders of a reorganization plan that would clear up all arrears on the preferred but this has not deterred the price from declining to 5 from last year's high of 14⅞. The reorganization plan has not yet been declared operative due to an alleged refusal of Allied Chemical & Dye Corporation, holding about 20% of the common, to assent. Completion, though, may become effective in a few months, depending upon how much money will be needed to pay off dissenters. Under the proposed plan, present holders of 6% preferred stock would receive two shares of new first preferred carrying a $3 dividend rate, one share of second preferred paying $2 annually and $1.50 in cash. Clearance of arrears would pave the way for common dividends but it will be seen that preferred dividends will require $8 annually in contrast to $6 a share presently. Whether the company can stabilize earnings anywhere near current levels remains to be seen. Considering the prewar record, much uncertainty is presented on this point, though in good periods the common may receive some conservative dividends if the reorganization plan is consummated. A low price for these shares is nothing new, for the range in the 1938-44 period was high—6⅜, low—75 cents. This record speaks for itself.

Worthington Pump

Though 1949 promises to be the third consecutive year in which earnings of Worthington Pump & Machinery Corporation have exceeded $5 per share, this encouraging fact has not prevented the shares from declining to 12, a low mark since 1945. Only last year they were quoted as high as 25⅝. At their present price, the shares are obtainable for the equivalent of 2.3 year's net earnings at last year's rate and provide an income of 10.4%. As a producer of heavy machinery and pumps, Worthington enjoys a world-wide reputation and under conditions prevailing both during the war and to

date, it has prospered well, meanwhile improving and expanding its facilities on a large scale. By last fall, though, incoming orders began to slacken and backlogs were about $10 million lower at the end of 1948 than at the beginning of the year. Notwithstanding this decline, unfilled orders of $60 million assured eight months of capacity operations in 1949 without allowing for new business booked in the current year.

Lower materials costs and improved efficiency in the first quarter lifted earnings to $1.42 per share compared with $1.34 a year earlier, but dividends have been conservatively held to 25 cents per share quarterly. Because the business is very sensitive to cyclical influences, investors are apparently wary lest near term changes may bring a return of a period similar to that for a number of years prior to 1943 when no dividends were paid on the common stock. By and large, however, the current price of 12 appears to have amply discounted foreseeable conditions and earnings for some time should continue well above prewar.

Investment Audit of Reynolds Tobacco

(*Continued from page* 335)

wipe out the privileges in ten years, with corresponding benefits to net earnings available for the common shares. Additionally, stockholders will be asked to increase the authorized amount of Class B stock from 13 million shares to 15 million, although as yet no plan has been determined for its actual issue. Offhand, however, it would seem that the directors envisioned a future offering of common stock that might bring some subscription rights of value to shareholders if capital requirements should become pressing. The motivation for these steps thus indicate sound and liberal polices that have always been characteristic of the Reynolds Company.

On a second table we show some statistics covering operations over a ten-year period. Study of these figures reveals significant changes in volume, margins, net income and dividends in the course of a decade. To begin with, a gain of 150% in volume in ten years was not matched by a commensurate gain in operating income, mainly for reasons we have previously explained. Operating margins averaging about 25% in the 1939 period narrowed rapidly in war years under Federal controls, but more recently have moderately improved to around 17.8%. The exact percentage for 1948 is not available, for the annual report does not reveal large excise taxes that should be deducted from net sales of $715.8 million. Relief from excess profits taxes after 1946, combined with the termination of price controls, has helped to advance net earnings despite rising costs of materials, wages and transportation. While the increase in net during the postwar boom was far less marked than in the case of most industrial concerns, the relative stability of R. J. Reynolds' profits over the entire interval is what counts more heavily in the picture. Net per share of $3.26 in 1948 contrasts with an average of $2.37 for the decade; under normal conditions uninterrupted by war, the ten-year average undoubtedly would have established an even narrower spread.

1949 marks almost half a century of an unbroken dividend record by R. J. Reynolds Tobacco Company. Dividend policies of the directors have been unusually liberal, as shown by average distribution of 80% of net earnings in the last ten years. It is interesting to note that in the 1939-42 period shareholders received an average of close to 90% of net compared with only 64% in the last two years. This suggests room for potential improvement in due course, for the company's facilities have been completely modernized and no immediate expansion is envisaged. It is possible, of course, that heavy borrowings may influence dividend decisions, but the financial position is so sound from every angle as to minimize the debt factor. The longer term debt should be easily liquidated out of earnings, and short term bank loans seasonally incurred are sharply reduced towards the end of each year.

Market Action

The market behavior of Reynolds Class B shares has been remarkably free from excessive volatility in the last decade, though in common with all quality issues they have not been immune from transient influences. The ten-year average range of high—46⅞, low—20 might seem to refute this assumption, but these extremes were very exceptional, one accounted for by general speculative enthusiasm in 1946 and the other by reduced dividends in 1943. The maximum annual price spread in the last two years has been about 8 points, and a recent price of 36 compares with the 1949 range of high—41¼, low—33⅞. Considering current depressed market conditions in the general list, it seems evident that confidence in Reynolds B shares has remained rather strong. Yielding 5½%, these quality shares carry considerable investment appeal and while their speculative characteristics are somewhat limited, their appreciation potentials in more normal times are reasonably attractive.

Britain's Problems at Home and Abroad

(*Continued from page* 329)

sible to restore the nation's economy and retrieve its economic dependence from the United States. It will be a difficult task, for the belief is growing that while many of Britain's postwar problems are fundamentally war-made, thus not created by the Labor Party, the latter's policies, muddling and insistence on rapid introduction of socialistic principles have aggravated them immensely and perhaps irretrievably, unnecessarily multiplying the difficulties that were naturally to be expected in the wake of a costly and exhausting war.

As between the Conservatives and Laborites, the issue is one of freedom of enterprise and the socialist concept of planning for the general welfare. Up till now, seemingly, the British people as a whole have been rather indifferent to a change which has cut deeply into a national tradition of individual initiative. The economic crisis now in the making will put their belief in socialism to a new test. In four years, Labor has not succeeded in leading the country out of the economic slough despite generous American assistance. It has had its chance, and because it placed socialist planning before economic realities, it has failed. One of Labor's slogans reiterates its belief in Britain. It remains to be seen, whether Britain continues to believe in Labor.

The Labor Government knows that a serious test looms ahead and is greatly worried about trade prospects. To them, a slump in this country means inevitably greater resistance to British exports and ultimately more tenacious American competition in world markets. And they realize as well, as we do, that a drop in exports — even if it becomes no sharper than it was in April — will be all it needs to force failure of the Marshall Plan. Even with exports soaring, Britain was unable to make up her dollar deficit in trade. The current trend widens the gap and leaves little hope that it can be closed by 1952 when the Marshall Plan is expected to expire.

This poses the critical question whether the modest recovery which has been achieved in Western Europe is to be sustained, and is not to break down in a depression. The focal point of the danger is undoubtedly Britain and the Sterling area, and the adverse impacts upon them arising from our own recession and global deflationary forces.

Confused Prospects for the Aircrafts

(*Continued from page* 337)

hubbub — can successfully cope with any fighter thus far developed at altitudes above 40,000 feet. Relying on such immunity from assault, the Air Force presumably is placing greater emphasis on bombers than on fighters, especially in view of the prospect for long-range requirements in event of hostilities. Recent tests demonstrating the practicability of refueling bombers in flight also have strengthened the claim of this type of plane for use in long-range bombing missions. Coincidentally, these developments have militated against the utility of fighter escorts whose effectiveness at high altitudes has been subject to criticism.

Under the circumstances, it seems logical to suppose that leading bomber manufacturers like Boeing and Consolidated Vultee may receive the largest contracts for the 1949-1950 program, while Lockheed, North American Aviation and McDonnell may capture the bulk of orders for fighters. Douglas, Fairchild Engine & Airplane and possibly Consolidated may receive principal consideration in the award of transport planes.

Despite clamor for economy in Government spending, the outlook is comparatively promising for new business. Congress appears determined to proceed with expansion of the Air Force in line with recommendations for a 70-group setup. Under legislation favored by the House, funds would be appropriated approximating $2.2 billion for Air Force procurement in the year ending June, 1950. This would call for purchase of about 2,500 airplanes having an airframe weight of almost 42 million pounds, an increase for the year of almost 30%. Funds available for Navy aircraft may be reduced about 9 per cent to about $690 million, which would provide for slightly more than 800 planes in the coming year as compared with more than 1,200 this year. The objective of Congress apparently is to work toward the 70-group strength in the face of White House recommendations of limiting the Air Force to 48 combat units.

Of total appropriations perhaps exceeding $2 billion expected to be approved by Congress, the Air Force is counting on obtaining between $1.5 and $1.9 billion, of which between 40 and 50 per cent is expected to be concentrated on bombers. Perhaps as much as 30 per cent of the funds may be channeled to the fighter group and from 10 to 15 per cent may be spent on transports. The remainder of $200 million or more may be devoted to guided missiles, electronics and other secret weapons.

According to recent press dispatches, awards for the ensuing year may include an additional 80 bombers for Consolidated Vultee notwithstanding agitation in Washington for an investigation of enlargement of the B-36 program after appointment of Secretary of Defense Louis Johnson, former Consolidated Vultee director and legal consultant. Boeing is expected to be asked to build about one hundred additional B-47 jet bombers. These two companies seem destined to receive the bulk of appropriations for military craft in the coming year.

Appropriations of around $600 million for jet fighters may be divided among Lockheed, which is turning out the F-90 now; McDonnell, which has been producing fighters for both the Air Force and Navy; and North American Aviation, producer of the F-93. The last named company is understood to have developed a more proficient F-86 fighter capable of superior performance in bomber interception maneuvers. Republic Aviation also has improved its F-84 jet fighter and presumably would be in line for orders. In general, manufacturers of fighters seem likely to find business a little less satisfactory in the coming year.

Expenditures on transport planes promise to be larger than previously contemplated because Berlin airlift operations have placed heavy strain on this type of

craft and have depleted reserve equipment. Indications point to division of orders among Douglas, Fairchild Engine, Boeing and possibly Convair. The first named company is believed to be in line for a contract involving $120 million or more for about 60 huge C-124's. Fairchild's C-119 'Packet' which performed effective service in Berlin as well as in distribution of supplies to blizzard victims in the West last winter is expected to come in for additional orders.

Purchases of trainers and special type aircraft may be rather limited. Fairchild is thought to be in line for small orders for its T-31 trainer, but business may be limited for companies such as Beech, Curtiss-Wright and Bell Aircraft, a leading manufacturer of helicopters.

Commercial Plane Business

Production of commercial planes is in a downtrend, as pointed out previously. Boeing is expected to complete the major part of its backlog of stratocruisers this year and new business in sight is believed to be limited. Altogether, shipments of commercial planes this year may run comfortably ahead of 1948, when sales approximated $84 million. Northwest Airlines is negotiating for funds with which to finance purchase of several stratocruisers for its route to the Far East. Some of the smaller lines have placed orders for Douglas Aircraft's modernized DC-3. For the most part, however, major airlines are deferring commitments on new equipment. This development points to likelihood of reduced volume for Douglas, Lockheed and Martin.

Commercial orders have represented a comparatively small proportion of the industry's output, however, so that for all practical purposes curtailment in this division should have comparatively little effect on the overall total production. In fact, the increase in military orders may more than offset contraction in commercial shipments in 1950. From the standpoint of individual companies, however, this shift is of major consequence since manufacturers formerly concentrating on commercial planes are unlikely to replace this volume with Government orders.

In line with increased shipments and lower costs achieved from volume production, some of the larger companies have been experiencing substantial improvement in earnings this year and appear headed for continued satisfactory results. Boeing, for example, lifted net profit in the first quarter to equivalent of 53 cents a share from little more than a breakeven point in corresponding period last year. Unfilled orders rose as of March 1 to $359 million, which included about $85 million of commercial business. Comparison with last year will be strengthened by the fact that labor difficulties hampered operations a year ago.

Reflecting increased efficiency and benefits of tax credits, Consolidated Vultee reported net profit of 43 cents a share in the February quarter and presumably bettered this showing in second quarter. Earnings from B-36 development are expected to rise as the year progresses and, since losses on the Convair transport program were absorbed in previous years, full year's results are expected to prove the best in many years. Large deficits have been recorded in the last couple of years.

Douglas Aircraft

Douglas has fared well on commercial orders in recent years and, with a spurt in deliveries at the beginning of the year, net profit rose in first quarter to $3.34 a share. Even though this rate may not be maintained, results for the year are expected to compare favorably with $9.72 a share reported for fiscal year ended November 30, 1948. On this basis, management's decision to place its shares on a regular quarterly dividend basis contributed in some measure to the raising of investment standing.

Grumman has depended largely on Navy orders for its fighter planes. Company is regarded as leader in engineering and operating proficiency and is expected to receive its share of Navy business. Enlargement of deliveries is believed likely this year and, with tooling costs slated to be reduced, net profit readily might exceed the $2.39 a share reported for 1948.

Lockheed's shipments are believed to be tapering off as production schedules on commercial lines near completion. Tax credits that contributed to the favorable 1948 showing of $5.80 a share are understood to have been fully utilized. Hence, although military orders appear promising, indications point to reduced volume of shipments and possibly to lower earnings.

Factors in Outlook

In view of the outlook for continued satisfactory military orders for the fiscal year just beginning and the probability that Congress may pursue its objective of an enlarged Air Force, the future of aircraft manufacturing might warrant a more optimistic appraisal if it were not for unhappy experiences of investors in the recent past. As a matter of fact, holders of stocks in this group lack the confidence exhibited by experienced executives who recognize risks involved in dealings with representatives of the Armed Services and officials in civil government. Whereas manufacturers feel that they may rely on fair treatment from Washington, the general public is prone to fear consequences of shifts in foreign policy.

Uncertainty over the outcome of prolonged diplomatic negotiations between Washington and Russia also weighs heavily as a psychological factor contributing to skepticism toward shares of airplane manufacturers. The possibility of an unexpected settlement of differences is being taken into account in the comparatively modest appraisal of stocks in this group. It is recognized that anything approaching an amicable understanding would bring concerted demands for retrenchment in armament appropriations.

With the industry still overcapacitated for normal military requirements, there is always a threat of further deflation in event of genuine relaxation of tension abroad. Hence it is not surprising to hear frequent hints of consolidations involving leading manufacturers. That greater progress in this direction has not developed may be traced to the fact that some of the principal concerns still are controlled by individuals who founded them and who quite naturally are reluctant to relinquish control. Most companies gained exceptional financial strength during the war and have not yet felt the economic pressure necessary to compel mergers. Developments leading to economies in military appropriations more than likely would revive talks of retrenchment in aircraft manufacturing and subsequent consolidations.

For Profit and Income

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revenue ran about 7% above year-ago levels, with sales to industrial users up about 15%, despite the general downtrend in production. Some of the best stocks in this group are United Gas, El Paso Natural Gas, Northern Natural Gas, Oklahoma Natural Gas, Panhandle Eastern Pipe and Pacific Lighting. Of course, you do not have to reach for any stock in the present market. These are sound issues to buy at concessions, with United Gas especially attractive if it works only moderately lower.

Outlook for Containers

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$1.50 per share, and the company, like American Can, has paid dividends regularly since 1923. At 32, Continental Can shares seem reasonably priced; this compares with 1948-49 range of high—40, low—29½.

While exceptional stability has been characteristic of earnings by several manufacturers of glass containers for decades past, their postwar peak was reached in 1946. In 1947 a decline in demand, together with rising costs of materials and wages, narrowed profit margins, but since then the industry has established higher prices and seems to have turned the corner again. Sales of $224.3 million by Owens-Illinois Glass Company in 1948 were second highest in its long history, though net earnings of $3.38 per share compared rather unfavorably with $4.60 for 1947. Extraordinary outlays in excess of $5 million for research last year, partially due to development of television tubes by a subsidiary, cut into profits. Volume of $217 million for twelve months ended March 31 was about 5% below the same 1948 period but earnings rose to $3.91 versus $3.19. This dominant manufacturer of glass containers normally accounts for about 40% of total industry volume, with subsidiaries or affiliates also producing large quantities of glass building blocks, metal closures, plastic items and glass stemware. A major expansion program in the last two years has involved outlays of almost $40 million, attesting to unusual confidence by management in the company's long term outlook.

Liberal Dividends

Dividend policies of Owens-Illinois Glass have been very liberal, and creation of $40 million funded debt at low rates has eased the company's capital needs. The 75 cents quarterly dividend will probably be continued in view of the current uptrend in earnings. The shares at 54 establish a price-earnings ratio of 16, attesting to a high regard among investors based on an uninterrupted dividend record since 1907 and the company's growth potentials.

Hazel-Atlas Glass Company, second largest producer of glass containers, seems to have completed its readjustments to more normal conditions. Net earnings for 12 months ended March 31 were reported as $1.78 per share compared with $1.30 for the like preceding period. Two price increases last year more than compensated for higher materials, labor and freight costs. Successful operations over about half a century have strongly entrenched this concern with food processors. Dividends have not only been paid without a break since at least 1908, but have often represented well over 80% of net earnings. Hazel-Atlas shares, currently quoted around 21 with a yield of 5.7%, hold considerable investment attraction though their speculative potentials appear rather limited.

Sales of metal containers account for about 40% of annual volume of Crown Cork & Seal Company; crowns and caps 46% and bottling equipment 14%. The current strong demand for crowns and caps, and with sales of containers likely to reflect seasonal improvement in coming months, suggest that 1949 volume may closely equal that of last year when it came to $98.6 million. Reduced sales of bottling machinery, costs not fully adjusted to selling prices and seasonal factors cut first quarter earnings to 32 cents a share. Substantial improvement is expected but 1949 net should hardly exceed $2.25 per share. Notwithstanding, there is a good prospect that dividends will again total $1.25 per share. As recent quotation of 15 for the shares was very close to the low for 1948-49, the price appears to have liberally discounted the lean first quarter earnings and may inadequately reflect the improvement that appears to lie ahead.

Inventory Liquidation — A Key to Recovery

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ated, though probably relatively shortlived effect on general business activity. The important point to remember is that in many lines today, ultimate consumers are absorbing goods at a higher rate than they are produced by industries currently in the throes of adjustment. Once stocks on hand are used up and especially after prices have been reduced, a more orderly flow of goods through manufacturing and distribution channels must be resumed.

In such lines as textiles and other non-durables, the process of inventory liquidation is well advanced. In non-ferrous metals and other industrial raw materials it is in full swing. In many durable goods, it is only beginning. Broadly speaking, the low point of the downswing and the timing of at least partial recovery will be determined more by the completion of the process of liquidation than by any other single factor. But such completion will be staggered, just as adjustment occurred in widely spaced starts.

A feature in recent inventory changes, as shown by official figures, has been the gradual increase in finished goods inventories despite a generally declining trend in total stocks. This applies particularly to durable goods and doubtless reflects involuntary accumulation due to lagging sales. Thus from February to April,

anufacturers' stocks of durable iished goods rose from $4,494 llion to $4,714 million, whereas in non-durables the rise was much narrower, from $6,553 million to $6,572 million. In either field, stocks representing purchased materials and goods-in-process contracted moderately, the result of cautious buying policies and the desire to work off existing inventories, on the part of wholesalers and retailers.

These trends are likely to continue for some time, probably along broader lines. At the end of April, each of the industries in the durable goods group reported a higher stock value of finished goods, and the same is expected in May. The ratios of finished goods to total inventories for both the durable and non-durable groups are still below prewar levels and in most individual industries the rise has been moderate to-date. One exception is the textile-apparel-leather group where current ratios are about the same as in 1939-40.

The downtrend in book values of goods-in-process and purchased materials has been underway since last August in the case of non-durables, and since December in durables, reflecting their unequal adjustment start. The combined drop in March was more than a half a billion dollars but in large part probably reflects lower prices. Inventories of wholesalers have been declining only slowly and so far modestly; by contrast, retail stocks increased half a billion dollars from February to March, reflecting seasonal factors, with emphasis primarily on soft goods.

Were the quantity of inventories in any given business, at least within broad limits, determined solely by the scale of operations, one could assume that inventory liquidation in many instances has already gone as far as it will. However, apart from the overriding element of declining prices which argue against it, there is a good deal of room for flexibility in inventory management which now more than ever will be instrumental in fixing the optimum quantity of stocks on hand. The radical change in the supply situation stands foremost in this respect; so do anticipated changes in activity as well as the credit position of a business. All of which is bound to introduce a good many cross currents in policies among individual companies.

Generally, also, inventories tend to respond to a change in sales only after a lapse of some months with the average time lag shorter in trade than in manufacturing. However, with goods and materials now in ample supply, any future response may be expected to be more prompt than in the recent past particularly when the call is for restocking, except in industries where finished goods stocks are substantial. In their immediate practical application, then, these two elements will probably cancel each other out. The average manufacturer, with his warehouse well filled with finished products, will go slow in stepping up raw material inventories even should sales improve. He will want to be convinced that the trend is genuine and lasting. For the time being, his main concern will be the working off of high priced stocks, despite temptingly lower prices for raw materials, lest he damage his own position. This is bound to slow up adjustment.

But such an attitude cannot go too far; ultimately falling sales will force lower prices through the competitive process and while this may involve inventory losses, most corporations are well protected against such contingencies. But not until buyers are convinced that prices are once more on a firm basis, can we expect demand to revive on a broader scale and production to move ahead.

Our Expanded Capacity to Produce

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this situation is now changing. Virtually in every industry, domestically, we are back on a replacement basis which is bound to mean a smaller market than in the recent past. Foreign demand for American goods continues large but competition for foreign markets, and in foreign markets, is increasing, and dollar shortages remain a major problem in expanding our exports outside of Marshall Plan schedules.

Doubtless American industry, in its postwar expansion plans, has been counting not only on a permanently enlarged domestic market but also on a permanently larger share in world markets. The former expectation appears well founded. Today we have almost seventeen million more people than in prewar. Not only that, but our enlarged population has relatively greater purchasing power than ever before, and has come to expect a continually higher standard of living. For instance, food consumption alone is 10%, per person, higher than the average in 1935-39.

Population Shifts

Also there have been vast population shifts, with newly expanded communities needing utilities, schools, roads, hospitals and other facilities of every kind which in the aggregate should add up to impressive demand for the products of industry. Additionally, many facilities, largely neglected during the war, must still be repaired, modernized or replaced. All of which will importantly strengthen the ground swell of demand for basic essentials of living and will contribute to maintenance of active business.

We have stated before that deferred demand has been met, but this statement requires elaboration. It refers, essentially, to *urgent* deferred demand. It would be an ovestatement to say that all deferred demand has been fully satisfied. Far from it. There is every evidence that a good deal of it remains unfilled and will be activated by lower prices. With individual savings piled up to impressive figures, such unfilled but postponable demand conceivably can and will greatly activate markets whenever consumers are satisfied with price conditions, and the current process of price correction works in this direction. Naturally with output rolling from a greatly expanded plant, competition will be intense but industry has been and still is preparing for it. A good deal of postwar expansion and modernization had as its aim not only greater production, but more efficient production.

American business enterprise prior to the war has always operated in an economy of abundance and will continue so. Techniques were consistently improved, new models brought out with the consumer in the driver seat, all of which requires an efficient and flexible productive apparatus. It would be erroneous, however, to view existing enlarged capacity merely in relation to probable increased demand, over prewar, in regard to established prewar products. Our overall manufacturing capacity has been ex-

led not alone because industry ects larger markets for virtually every product manufactured before the war, but for the manufacture of many new products previously not existing but now widely accepted as a necessity. Thus the chemical and rubber industries, for example, hold dramatic possibilities for the development of new markets and new products, and this must be properly considered when appraising their enlarged facilities.

Nevertheless, in its postwar expansion plans, industry has been looking to large foreign markets —essential to domestic prosperity. With two major industrial competitors, Germany and Japan, out of the running and with others like Britain struggling for recovery and stability, American industry had things pretty much its own way; the world was clamoring for American goods and took all it could get. Anticipating continued heavy demand abroad for their output, many manufacturers probably enlarged their facilities beyond the absorptive power, on a regular replacement basis, of even a bigger and wealthier U.S.A. population only to find that hopes for substantial foreign outlets have been clouded by the difficulties in restoring world trade to a healthy condition. Were it not for the Marshall Plan, American exports would probably have shrunk substantially quite some time ago. The so-called dollar gap has become the bugaboo of foreign nations and American exporters alike, and 1952 when Marshall Plan aid expires, is looked upon as a critical year.

There is demand for many American goods in almost every country, but this demand can only be made effective if the peoples of these countries can obtain dollars through marketing their products in this country, or by obtaining long range peacetime investments of American capital. If world trading could be freed of some of its political fetters, if the cold war, so inimical to a return to confidence and normalcy, would give way to real peace, most of the problems now hampering foreign trade and limiting the outlets for American goods could be readily solved or at least greatly minimized. Instead, the tendency is increasingly the other way, towards restrictionism and economic isolationism, and — as the productive capacity of other nations increases — towards sharp competition.

This is not to say that these tendencies cannot be reversed by bold and proper action but it will not be simple. And as long as they are not reversed, a part of our productive capacity enlarged with a view to active foreign business may well become excess capacity.

Our foreign trade at present is still huge and thus an important prop to our overall economy. Exports this year are likely to run between $12 and $13 billion, no mean outlet for the products of industry, and they will continue heavy so long as the Marshall Plan remains in operation. Our imports this year should range between $6.3 billion and $6.7 billion but the trend appears downward which later may find reflection in declining exports. For only by increasing our own takings of foreign goods can we maintain our shipments abroad at high levels, barring continued subsidation.

Doubtless industry needs large and active foreign markets to keep its expanded productive facilities employed. On basis of normal expectation, such markets appeared virtually assured just as the world demand for goods, in the wake of history's most destructive war, seemed unlimited. Moreover, it will be a long time until nations like Germany and Japan will again become formidable competitors in world markets; not only their own internal needs and limitations, but our control of their industrial recovery will see to that. But world trade as a whole is not free and crucial tests still lie ahead. Any improvement in the world situation would find this country in an excellent position to assume leadership of a bold program of world trade and development. American industry is geared for it.

As I See It!

(*Continued from page* 313)

quoted to his cronies the proverb: "An obliging bear is more dangerous than an enemy." It would be well for the West to keep this in mind. Despite a friendlier and more obliging attitude of the Russians, Western vigilance must not relax.

The Advantages of Long Term Investment

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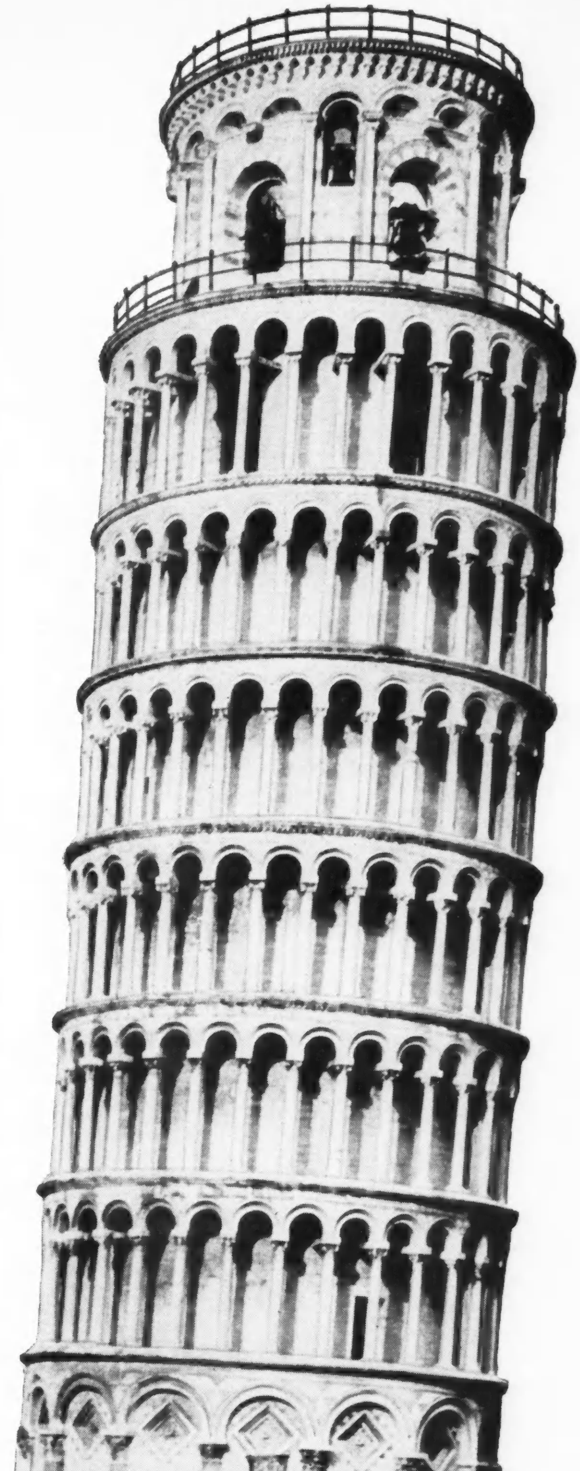
investment of $5000 in GM stock in 1924 woud presently have a value of more than $162,000, though current market quotations are depressed, as we all know. This illustrates how miraculously the development of a new means of transportation, backed by brains and ample resources, has brought prosperity to farsighted stockholders within a reasonably short time, provided they paid scant attention to panics, politics or highly erratic stock market action.

Among a number of other concerns with a startling growth record, Dow Chemical Company is an outstanding example. 25 years ago this concern had been paying dividends regularly since 1911 and approximately $5000 would have been required to purchase 106 shares at 47. Believe it or not, such an investment today would have a cash value of more than $354,000 if the shares plus subsequent split-ups had been retained by the original investor. All in all, Dow Chemical has developed more than 500 chemical items, including bromines and chlorines, for which markets have expanded in line with the marked industrial growth of the country. Additionally the company more recently has become the foremost producer of magnesium, a light metal with a seemingly unlimited horizon.

In conclusion, while it is true that the astonishing records we have discussed are all based on hindsight, this does not diminish their significance in the least. As long as our system of free enterprise endures, history will continue to furnish plenty of examples where stockholders have directly shared in the outstanding growth of wisely selected concerns. To select them on a basis of sound growth potentials is no easy matter, but once weeded out from the great array of shares with less promise, intermittent adverse price fluctuations, depressions and panics should lose a good deal of their terror.

IT <u>CAN</u> BE DONE
...but don't try it!



Sometimes it's possible to break all the rules—and get away with it.

The famous Tower of Pisa, for instance, has successfully defied both sound engineering practice and the law of gravity for over 800 years.

But for most of us, most of the time, the rules hold.

That is particularly true when it comes to saving money.

The first rule of successful saving is *regularity* . . . salting away part of every pay check, month after month.

Once in a blue moon, of course, you'll come across someone who can break that rule and get away with it. But the fact is that most of us *cannot.*

For most of us, the one and only way to accumulate a decent-size nest egg for the future and for emergencies is through regular, automatic saving.

In all history there's never been an easier, surer, more profitable way to save regularly than the U. S. Savings Bond way.

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